

INDIAN TARIFF BOARD

ORAL EVIDENCE

recorded during enquiry regarding

GRANT OF PROTECTION

TO THE

OIL INDUSTRY

Volume II.

सत्यमेव जयते



CALCUTTA: GOVERNMENT OF INDIA
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OIL INDUSTRY ENQUIRY.

**Preliminary Meeting of the Tariff Board held at Rangoon on
Tuesday, the 24th April, 1928.**

President:

Sir Padanji P. Ginwala, Kt.	President.
Mr. A. E. Mathias, I.C.S.	Member.
Dr. Matthai	Member.
Dr. Coggin Brown	Technical Adviser.
Mr. R. L. Walker, I.C.S.	Secretary.

Representatives of Oil Companies:

1. The Hon'ble Mr. Gray	The Burmah Oil Company, Limited and the Assam Oil Company, Limited.
2. Mr. J. Tait	The Indo-Burma Petroleum Co., Ltd.
3. Mr. G. G. Compton	The British Burmah Petroleum Company, Limited.
4. Mr. Lamb	Hessford Development Syndicate Ltd.
5. Mr. D. Cameron	The Attock Oil Company, Ltd.,
6. Mr. A. Sirkar	Thilawa Refineries (Burma) Ltd.,
7. Mr. W. F. Guthrie	} The Standard Oil Company of New York.
8. Mr. V. L. Whitney	

Preliminary remarks.

President.—Gentlemen, before we start taking any evidence, I would like to explain to you in a little more detail the scope of the enquiry and the lines upon which it will proceed. The Government of India have issued one communiqué which, I have no doubt, you have seen, and we have issued another communiqué in which we have briefly explained the procedure that we propose to follow. But since we have received these replies from the various applicant companies, we have felt that the companies do not seem to have understood—perhaps we have not been able to explain sufficiently to the companies—exactly what is required. I think a great deal of misapprehension exists not only as regards the scope of the enquiry, but as regards what the Government of India or the Local Government or this Board can do in connection with the applications which we are now investigating, and I would like to explain to you briefly what the points are.

In the first place I think the companies should realise that the method both of Government and of examining questions of protection is somewhat different from the olden days; that is to say, that the Government of India now hasn't got the same authority in its executive department as it had at one time, and that it has also got to follow certain principles. One of them is that, whatever it does as regards applications for protection, it must have the concurrence of the legislature—the Legislative Assembly and the Council of State—and in order that it should have that concurrence the Government of India must be in a position to satisfy the legislature. Ordinarily before the Government of India undertakes the duty of approaching the legislature, it refers the question to this Board. Then this Board has to enquire, having regard to the policy of the Government and of the legislature,

into the question and when the Board is satisfied, it makes its recommendations. Now in order that the Board should be in a position to make any recommendations, the Board must have sufficient data.

The Government of India has in its communiqué laid down three points. Those points, of course, we have got to investigate, and when we have taken all the evidence, we shall consider the evidence. But the enquiry is not merely confined to the elucidation of these three points either within the terms of reference or speaking on general grounds, because the communiqué expressly requires us to consider the effect of this rate war upon the financial position of the companies. If we have to make our recommendations on the information already given to us, we should find it very difficult to make any proposal which would serve any practical purpose. I don't think that it would be of interest to anybody to have a report which is a mere answer to these three points, unless the report gives also the answer to the further question, *viz.*, what is the effect of this rate war on the position of the companies concerned. In our communiqué we have explained that one of the things we would like to know is how the financial position is going to be affected. Too much stress has been laid on this question of world parity prices. Merely to say that such and such was the world parity price, and such and such was the average realised price and that thereby mere arithmetical calculation, the position of the industry is going to be affected in such and such a way, will not throw very much light, as you can see yourselves, upon the financial effect, because the world parity prices may be very much higher than the prices which may be remunerative to yourselves or they may be very much lower, or your costs may be very low instead of your costs being below world parity prices in which case your financial position may not at all be affected, so that a mere examination of world parity prices will not take us sufficiently far to enable us to make a satisfactory report on the main issue. Not only that; we will have to have information upon other points also. For instance, here we are concerned with petrol and kerosene, but there are other products which are produced simultaneously along with these two kinds of oil or independently. The mere fact that you are losing on one product does not necessarily prove that you are losing on the whole, so that it will be necessary for us to get the requisite information to ascertain how on the whole your position remains at a particular level of prices.

Of course we have no power—in fact it is not necessary for us—to put any pressure upon you to give us these facts. It is entirely for you to consider. But on the other hand you cannot compel us to make a report in your favour, if you don't give us the facts we think we ought to have—that is obvious. We are expressly asked by the Government of India to enquire into this question and we come here with the best of intentions to assist the industry in any way we can, but if the industry itself does not supply us with the necessary materials, the industry must not blame us afterwards if no proposals can be made or if the proposals are inadequate or unsuitable. So it is for you, Gentlemen, to make up your mind and decide how far you are prepared to furnish us with those materials. So far as I can see these representations that we have received do not throw any greater light than your representations to the Government of India. If that information was sufficient, the Government of India could have passed orders without asking us to enquire. But they want us to make an enquiry into all these points, because obviously the information before them was not adequate.

The point has been made that the position of all the companies is not affected in the same way, because some of the companies are older and more powerful than the rest. But on a question of general principle, ordinarily speaking, there can be no difference so far as the remedies are concerned, provided of course that all the companies have more or less established the same set of facts. My remarks above apply to opponents as well as applicants. They also must be prepared to lay sufficient facts before the Board to enable it to investigate the points at issue. If they also don't

give us all the necessary facts, they also run a risk in the sense that our report may be entirely one-side. This Board has got to make a report; it has got to come to a finding rightly or wrongly. If it finds that the facts do not permit of any conclusion, it will have to say so. It will say to the Government of India: "Here are the answers to these three points. The Board cannot proceed any further". The Board cannot do anything else. I would like the companies to realise that this Board is here, on a proper case being made out, to make proposals which may assist them. This Board is not here merely to hear the evidence and then say nothing is to be done. The Board will look into the evidence. If it has the necessary assistance and if a good case is made out, then it will be the duty of the Board to make recommendations.

The question may arise at some stage whether some difference may have to be made between the bigger and the smaller companies. As I told you a little while ago, ordinarily speaking, there should be no difference provided of course all the companies lay the same set of facts before the Board. If of these 7 concerns, 2 or 3 place before the Board all the information that it reasonably requires and a good case is made out, then the fact that the other companies have not done so would not necessarily make this Board submit such recommendations as would benefit only those companies which have assisted the Board. Sometimes it is not possible to differentiate. But if a case arose in which differentiation was possible, then the only alternative for the Board is to confine its recommendations merely to the parties who by placing full evidence before the Board have established a case for special assistance. As I say, that is not always possible, but at the same time it is not impossible to make a special provision for special circumstances.

There is one other aspect of the case to which I should like to refer and on that too we shall require a little more information than has been given. It has been stated in all the representations, as far as I can see, that this industry is one of national importance from the military and other points of view. Generally speaking, I don't suppose it would require very much evidence to satisfy that condition on general grounds. But there is also the further fact that an industry may be of great national importance, but at the same time it must be shown that it is a national enterprise, because you are asking the country, if this application is granted, to make a sacrifice. The taxpayer is entitled to know whether he has really any interest in the thing apart from military grounds, whether it would pay him in the long run to support this industry on the ground that he himself is interested in it, that is to say, as regards its control, management and so on. It is unnecessary for me to tell you how much stress is nowadays laid on this aspect of the question. In every enquiry we have conducted, emphasis has been laid over and over again on the national character of the industry. We should like to have some evidence which would show us in what way it may be regarded as a national enterprise apart from its importance to national defence and so on.

There is one other point which may arise later on. I don't wish to go into it just now, nor do I think at this stage that it is very relevant, but I think it may be necessary for us eventually to examine how this rate war arose. Allegations have been made on both sides. Each side charges the other of having started the war. It is very difficult to say without some evidence as to what really led to the war. If the war was inevitable in the sense that everybody in the country had to take part in it, well and good; that may be a very good ground. If, on the other hand, the war might have been avoided, the position may be slightly different. Or it may be that some companies might have found it to their interest to start the war or to take part in the war, whilst others might have found it difficult to abstain from the war. If they were dragged into it, because there was no help for it, that would put a very different complexion on the present position of the industries, and the reasons which compelled them to enter the war. That, as I say, is not at present of first rate importance, but as

the enquiry develops, it may perhaps be necessary for us to examine that aspect of the question, and on that, I hope, there will be no difficulty on the part of any company to give us the fullest possible information. This point may become very relevant at some subsequent stage. Supposing—I am just putting to you a hypothetical case—all the Indian companies felt “this oil is coming here; let us start this war and kick it out; it will be to our interest if all do it on an organised basis”...and started this war, they will have to give very good reasons to the consumer before he is induced to take part in the war. He will want to know why he should be dragged into it, because you have chosen to start the war. On the other hand you may be able to show that it was beyond your control and that you could not avoid it. Then the consumer will say “it is to my interest to help this war”. I think that some more information than has already been given as to the origin, the extent and the probable duration of the war will be required. That is the position as regards kerosene.

As regards petrol, we have got no information whatsoever in any of these representations except this that the oil companies think that the war will also spread to petrol. The mere apprehension that the war may spread to petrol would hardly be a good ground for a prudent man to take immediate action. You must give us some facts to show that the war is imminent or that it is so near, that unless some steps are taken, you will be involved in a very great risk. All that we have got so far in all these representations is simply this that they think that this war may extend to petrol.

We are asked not only to enquire whether this war is going to spread to petrol—as I have said so far we have got very little information on this point—but we are further asked that if it extends to petrol, how the position of the industry will be affected. Supposing you had to answer these questions on the materials already supplied, would you be able to do so? We don't know what the price is going to be; we don't know what your costs are; we don't know how much petrol will be imported; and we do not know how much petrol is going to be produced. On these points we have no information. It is no good our saying “Yes, the applicants tell us that they apprehend a war” and they also tell us that if the war takes place, prices may be reduced and that by an arithmetical calculation such and such a consequence will follow. You would agree that if we were to put forward that finding, the Government of India or the Assembly would find it very difficult to act upon such a finding. As I say, if you give us no more information than you have already given, we shall do what we can, and as we go along we shall point out how inadequate the information is. Then if you don't still think that it would be to your interest not to give us any more information, it is for you to consider. But I think it is the duty of the Board to point out what the Board expects and it is for you to make up your mind whether you are going to supply us with the information or not. Supposing that information is given, then the question will arise—and it has arisen in previous enquiries—whether that information should be given in public or confidentially. Practically in every enquiry we have conducted so far, the information, though it may sometimes not have been given in public at first, has always been allowed to be published afterwards. In very, very rare cases the evidence is taken in camera on the understanding that it will be treated as confidential and as the enquiry proceeds, the parties have generally realised that it will be to their advantage to allow the facts to be published. But the Board can conceive of cases in which it may be very prejudicial to the interests of the party to lay any information before the Board in public. In those cases the Board will be prepared to treat all that information as confidential. But the Board cannot say at once that every bit of information will be treated as confidential. It can do this; it will treat every information as confidential and will not publish it unless the parties agree. As the enquiry develops the Board will be able to convince the parties as regards some of the points that it is to their interest that the public should know the facts. If, on the other hand, it is found that it cannot be done, the Board will do whatever it can within

the arrangements made. If the information is to be treated as confidential, it will be treated as entirely confidential. But you will have an opportunity of judging for yourselves, when you are examined in turn, what course you should follow. In this connection I would like to impress upon you that, on the whole, it will be to the advantage of the companies to give us all the information they can in confidence just now. This Board apart from any other consideration, if it makes any recommendations, has got to support those recommendations and it may be very difficult for the Board to support any recommendation without disclosing the information. That is the difficulty. It is quite possible to do so in some cases. But without any information whatsoever, I maintain that the Board will find it very difficult to come to any decision which will be of much importance either to yourselves or to anybody else.

I was going to tell you the kind of information that the Board would require. But unless the applicants are prepared to tell us more or less whether they are going to supply the information, I don't think it will be necessary for the Board to trouble them. We should like to know whether you are prepared to give us any more information than you have given us in your representations. We don't wish to take up your time by simply asking for information which you can tell us in a few lines you are not going to give. We should like to know whether there is any possibility of the companies giving us any more information than has already been given in these representations, of course on the assumption that the information supplied will be treated as confidential. We should like to hear the Hon'ble Mr. Gray's opinion on that point.

Position of the Burmah Oil Company.

The Hon'ble Mr. Gray.—Speaking for the Burmah Oil Company, we are not applicants for protection. We say that so far as the war is likely to continue, we can carry on and that we cannot justify a case for protection on account of the price as far as the Burmah Oil Company is concerned. Therefore my instructions from my principals are to assist the Board by explaining any statement in the representations or memoranda previously put in.

President.—May the Board take it that practically you are not interested in this enquiry and that it may proceed as if you are not a company at all carrying on business? The Board must clearly understand what the position is.

The Hon'ble Mr. Gray.—We consider that there should be no differentiation between us and the other companies except in proportion to the volume of production.

President.—That means that you are interested in the application. I have explained in the earlier part of what I said ordinarily the Board doesn't make any difference, but if it comes to a question of making a difference, there is nothing to prevent the Board from doing so, so that I want to know what the position of the principal company is. If you say "all right, we don't want anything; you may proceed as if we are strangers" if that is your attitude, then of course you can say, "very well, we shan't give you any more information." But if it is your case that you should be treated in the same way as other applicants, then I don't see how your company can claim a different procedure. Of course, as I say, I have got no power; nor have I the desire to add to my work in that way. But I may point out to you that if your company would have us treat you on the same footing as the other companies, you should be prepared to render us the same assistance as others.

The Hon'ble Mr. Gray.—I don't think any assistance we can render will be of any value from the point of view of other companies.

President.—If we found that the information you gave us did not help us, we should say so. But I think you are under-estimating the value of the assistance which you can give us. Your assistance would be most

valuable. Any information that you can give us on those points will be useful. For the first time in its history the Board says that it will treat any information that may be given to it as confidential for all time, and the Board will be prepared to abide by that if you insist upon it. Even under these conditions if you don't see your way to assist the Board, what is the Board to do? Of course I understood you to say that you would be prepared to give us any explanation as regards statements submitted by you already in so far as they were not intelligible.

The Hon'ble Mr. Gray.—Yes.

President.—But supposing any questions arose out of those statements, would you give us more information or would you confine yourself merely to clearing up any ambiguities or what is your position? How far are you prepared to assist us?

The Hon'ble Mr. Gray.—I should be very glad to give any information I can as to how prices have been fixed in India.

President.—You are as accustomed to the Government of India as we are and to the ways of the legislature, and I think you must realise it is no good this Board making any recommendation unless it is able to support it by facts. You know very well what happens up there, so that it is not that the Board is not willing, but that the Board is not able to do it. The Board should be enabled to make its recommendations. The Board is always willing to make any proposal if it is satisfied that a case is made out. But the ability of the Board must very largely depend upon the information at its disposal. If you say "Here is our case; we don't want any more" you can say so. But, as I say, in that case, the company must accept the logical consequences of that attitude.

The Hon'ble Mr. Gray.—It is not very clear exactly as to what information you are likely to require from us.

President.—I think in the communiqué we have explained to some extent what we want. The main point is this. World parity prices, unremunerative prices or other prices, those things are of far less importance than how these prices affect you and it is for you to explain how by the reduction in these prices your position at present or in the near future is going to be affected. If prices do not affect you, they do not affect anybody and so no recommendations are needed. You must show that the prices do affect your financial position and in what way. That, you will agree, has not been brought out in any of these representations. What you have shown is this. It is merely an arithmetical calculation. You simply say that these were the pre-war prices and these are the present prices. The difference between the two prices being your loss. That does not require such an elaborate enquiry. A mere calculation like that you will agree does not throw much light on the effects of prices on the financial position of the companies.

The Hon'ble Mr. Gray.—The figures we gave you show what the losses are and I take it the enquiry of this Board is to discover to what extent companies can bear the loss which is being incurred.

President.—You must prove that it is a loss. It may be only a reduction of profit.

The Hon'ble Mr. Gray.—The question is whether the companies can continue to bear that reduction or not.

President.—In this enquiry, as we have told you, we have only two months. If you were to place all the facts we want before us, we could not possibly examine all those facts as regards costs. As you know, in our previous enquiries, it took us not less than 8 months to complete an enquiry of this importance. We haven't got 8 months. We cannot convert 2 months into 8. We cannot go into all the details. If you can reasonably say "this is the price we are getting, but here is the price at which we can reasonably afford to sell these products" then we will be able to say "never mind what the world parity prices are, this is the price they ought to get to make a reasonable profit, to make provision for future improve-

ments and further developments and so on. If we have no figure to go upon, what can we say? We cannot say anything except that looking to the balance sheet of the Burmah Oil Company it has got so many million pounds (sterling) in reserve and that if the war continues, the reserve would be cut down by so much in so many years. That is not the thing that you want us to do.

The Hon'ble Mr. Gray.—We have approached the Government of India on behalf of the Oil Industry as a whole. We don't pretend that we are what they call "*in extremis*."

President.—That is not the point. You know the policy of the Government as regards protection. It is not a question, as I say, of world parity price or any other price. It is the question of a price which an industry which ought to be protected ought to get. Unless you are within a reasonable limit, you can say that this industry may have eventually to close down—may be after 5, 10 or 25 years. If an industry is to be protected and if it appears that in course of time it will be closed down unless it gets a particular price, then it is for the State to consider.

The Hon'ble Mr. Gray.—I think it is not only a case of the State having to consider whether the industry would close down; it has also to consider whether the industry is going to continue at the maximum efficiency.

President.—That is included in that.

The Hon'ble Mr. Gray.—That is the point of view from which we have approached.

President.—That is quite true. As you know there is one person who is not here and whom we are supposed to represent, namely the consumer. He is not represented here except that the Board looks after him. He is entitled to know what bill he is asked to foot, if he makes up his mind that this is an industry which ought to be protected. We cannot say "well, it is not necessary for you to know; it is a good industry and you must pay for it". He wouldn't do it. Let us for the moment forget the world parity prices. If the industry gets such and such a price, it would give not only a reasonable return on the capital invested, but also it would enable it to develop present and future resources and so on. If the industry is to do that, it must get that price. In order that the industry should get that price, he will be told "you have got to pay so much". But if you say to him, "we don't care how much you have got to pay; you had better pay", he is not going to do it. That is the whole thing. If you have to come to any finding, do you think you would be satisfied with the information we have?

The Hon'ble Mr. Gray.—The price which is going to maintain the industry at the maximum efficiency is the price which is going to continue the existence of smaller companies, not the price which is going to keep in existence the larger companies. I think if you arrive at the price which the smaller companies should get, you will have got an answer to that question.

President.—Perfectly true. It may be all right so far as these companies are concerned; the consumer must protect, but not the other companies. That is the position. I don't say that is not a possible view to take. But then we are again where we were before.

Dr. Matthai.—It might be suggested that the price which would enable the smaller companies to exist might be a little more than sufficient for you to maintain yourselves at the maximum efficiency. Unless we are satisfied that it is not so, it will be very difficult for us.

The Hon'ble Mr. Gray.—It is a difficult problem to protect the smaller companies without giving something to the bigger companies.

President.—It is not impossible. What is the objection of your company to giving us this information? Is it that it may leak out or what is the idea?

The Hon'ble Mr. Gray.—Not that. I am merely an agent here. My principals are in London. It is very hard to say what exactly they think. They might be willing to give more information in strict confidence.

President.—I am particularly anxious that you should understand what the position is. You may take it from us that we are here, if possible, to make proposals which would help all the parties. That is our attitude always. In order that we may do it, I wish you to understand what is required and I would also like you to convey that to your company. Of course if they say that it doesn't matter what happens—if they take up that attitude, I have nothing to say. But if they expect that they are entitled to get the same relief eventually—they may not need it now—as the smaller companies, then they certainly must consider whether it would be possible for us to devise means by which relief can be confined only to those companies who have immediately established a case. That, I think, we must make perfectly clear.

All along it has been assumed in these representations that what is good for one company is necessarily good for the rest. That is not necessarily the position, nor is it possible. So far as this Board and its recommendations are concerned, the Government have got to follow certain principles which it has laid down in concurrence with the legislature. That is to say it is not possible for the executive department of the Government of India to do anything by way of protection, because its policy has been laid down in agreement with the Legislative Assembly and the Council of State and it has got to follow those principles until that policy is abandoned. That policy does require an enquiry by this Board based upon as full information as possible upon which it makes its recommendations. The recommendations of this Board are considered by the Government of India and eventually it is the legislature which has got the final voice. I would earnestly ask you to consider all these points. We don't wish your company to say afterwards that we did not make any recommendations.

The Hon'ble Mr. Gray.—Would it be possible for you to say more definitely what further information is required in addition to what we have given so far.

President.—We can tell you more definitely. I think I tried to explain to you that we have got to consider the effect of these prices on the real financial position, not by mere arithmetical calculation; that is to say, we have got to find out by how much the prices that you are likely to get fall short of a reasonable price that you ought to get. That reasonable price doesn't mean a certain amount of return on capital. We shall take the other things also into consideration. If we find that all these things are not covered by the price that you are likely to get, then *prima facie* you have made out a case. How can anybody say how you are going to be affected without those figures?

Mr. Gray, to-day I am not going to do any examination work except the most preliminary. I think to-morrow we shall go into those statements in the representations that you have already made, and there will be fresh opportunities for you to ask what further information is required. We shall tell you all that, but in the meanwhile I gather from these representations that you thought that the information that you had already given would suffice for the purpose. But I wish you to understand clearly that so far as this Board is concerned, that information will not be adequate.

The Hon'ble Mr. Gray.—Speaking on behalf of the industry as a whole, that is all the information that we can give.

President.—If you take the attitude that you are not at all interested, we cannot expect you to do more than you have done probably on behalf of the other companies, but that is on the assumption that you are not at all interested in the final results of this enquiry. If that is your position, nothing more need be said, but if the company do feel at some time or other the position may arise—if it has not already arisen—in which it may require the assistance of Government, then I think the company might consider that it would be just as well for the company to give us the information.

The Hon'ble Mr. Gray.—I will have to consider the matter and if necessary consult my principals.

President.—Would it take a very long time?

The Hon'ble Mr. Gray.—No.

President.—As regards the other companies, have they got anything to say on these general points?

Position of other producing companies.

Mr. Tait.—My company (Indo-Burma) is prepared to give details of the costs and their effects on our financial position in confidence.

President.—Everything that we ask for you will give?

Mr. Tait.—Yes, everything that is reasonable.

President.—Mr. Compton, what is the position of the British Burma Petroleum Company?

Mr. Compton.—I have tried in the letters that I have addressed to you to give you as much information as possible as to the extent to which we are affected by the present kerosene situation and I have left out of the statements and letters any question of how our position may be affected if the war spreads to petrol. But if there is any further information that you want me to give, I shall be only too pleased to give it. The only thing is that my London principals do not wish the particulars of costs that I have given you to be made public.

President.—That is understood. As a matter of fact this Board cannot possibly publish anything that you don't want the Board to publish. The point was whether you would give us all the information that you could reasonably give us.

Mr. Compton.—I am quite prepared to give any other information I can.

Mr. Cameron.—We are also prepared to give you all the information we can.

Mr. Lamb.—We shall also give you all the information we can.

President.—As regards the Standard Oil Company, what is the position?

Mr. Guthrie.—You will get all the information you require.

The Hon'ble Mr. Gray.—As regards the Assam Oil Company I am prepared to give the Board any information that is necessary.

President.—I hope it will be possible for you (Mr. Gray) to give us all the assistance you can in respect of the Burmah Oil Company also. You really don't wish us to have the enquiry incomplete. I think you will agree that if the leading company in the country remains outside, to that extent at any rate the enquiry would be incomplete. One cannot say more than that.

There is one other point that I wish to be clear about. There are some companies who use the same marketing organization as yourselves.

The Hon'ble Mr. Gray.—Yes.

President.—Are they under their own management as regards the rest?

The Hon'ble Mr. Gray.—Yes.

President.—It is only marketing that is done by you, is it not?

The Hon'ble Mr. Gray.—Yes.

President.—Are the Burmah Oil Company shareholders in those companies to any large extent?

The Hon'ble Mr. Gray.—No, except in the case of the Assam Oil Company which I represent also.

President.—What I wish to be clear about is this. Except in the case of marketing which is merely a matter of arrangement, the Burmah Oil Company have got no controlling interest in any of these companies, have they?

The Hon'ble Mr. Gray.—No. With the exception of the Assam Oil Company the Burmah Oil Company have got no control whatsoever over these companies.

President.—What about the Attock Oil Company?

The Hon'ble Mr. Gray.—We do the marketing for them on a commission basis. As far as I know, the Burmah Oil Company has not got a single share in that Company.

President.—And the Rangoon Oil Company?

Mr. Compton.—It is controlled by the British Burma Petroleum Company.

President.—What about that?

Mr. Compton.—The British Burma Petroleum Company is under our management so far as production of oil and refining are concerned. But all the products are marketed through the Burmah Oil Company under an agreement with them. The Burmah Oil Company are not shareholders in that company so far as I know.

Dr. Matthai.—The Rangoon Oil Company only produces crude?

Mr. Compton.—Yes.

Dr. Matthai.—They supply all their crude to you for refining?

Mr. Compton.—Yes.

President.—Is the Asiatic Petroleum Company represented here?

The Hon'ble Mr. Gray.—No.

Mr. Mathias.—Is it registered in India?

The Hon'ble Mr. Gray.—It is now since the formation of the Burmah Shell Oil Storage and Distributing Company of India, Limited. It is really a part of the Royal Dutch Shell Organization.

President.—Is there anybody representing that company?

The Hon'ble Mr. Gray.—Not in Burma, but in India.

President.—Since we have issued our communiqué we have not heard any thing from that group from anybody.

The Hon'ble Mr. Gray.—I had an enquiry from the Burmah Oil Company, Calcutta, asking when representations from the Asiatic Petroleum Company could be received. Whether they are intending to put in any representation or not, I do not know.

President.—The Board issued a public communiqué. It sent a copy, I believe, to all the companies about which the Board knew. If they are interested in any questions that may arise in this enquiry, it is for them to take the necessary steps.

The Hon'ble Mr. Gray.—I think they probably understood that only the indigenous companies would be putting in their representations, but when they came to know that others had done so, they will also probably do so.

Mr. Mathias.—Is the Asiatic Petroleum Company your selling organization?

The Hon'ble Mr. Gray.—It is not. It is the selling organisation of the Royal Dutch Shell Group.

Mr. Mathias.—Was the Asiatic Petroleum Company formed last December?

The Hon'ble Mr. Gray.—No. Only the new company, viz., the Burmah Shell Oil Storage and Distributing Company of India, Limited, was formed last December.

Mr. Mathias.—Has that Company put in any representation?

The Hon'ble Mr. Gray.—No.

Mr. Mathias.—Of course that Company is interested in the enquiry now being conducted.

The Hon'ble Mr. Gray.—That is merely a selling company.

Mr. Mathias.—Is that a selling organization of the Burmah Oil Company and the Royal Dutch Shell Group?

The Hon'ble Mr. Gray.—Yes, that is right.

President.—The Board hasn't got very much time. If you think that they ought to have an opportunity of putting in any representations, would you take steps to communicate with them?

The Hon'ble Mr. Gray.—As a matter of fact I spoke to your Secretary the other day and he said that any representations received up to the 1st of May would be considered and I wired to Calcutta to that effect.

President.—That may not give us any time at all. I am awfully sorry that this happened. Supposing it became necessary for us to go into the origin of the war and so on, it might be very relevant to examine that company, if, of course, it chose to give evidence.

The Hon'ble Mr. Gray.—It is not very clear from what had been published that the origin of the war is likely to be enquired into.

President.—I think we put in a clause in our communiqué in which we said anybody likely to be interested in this enquiry was to communicate with us and send in any representation. We could not communicate with a company which was not before the Board. Clearly it is for that company to take steps to appear before the Board, though we take every possible precaution that no body likely to be affected is left out, so that perhaps you might communicate with them and if it becomes necessary to examine them, we will let you know in time.

The Hon'ble Mr. Gray.—I will communicate with Calcutta.

Dr. Matthai.—Mr. Lamb, do you ordinarily supply all your crude to the Indo-Burmah Petroleum Company?

Mr. Lamb.—Yes.

Mr. Mathias.—Have the Indo-Burmah Petroleum Company got a controlling interest in your company?

Mr. Lamb.—No.

President.—Could you tell me whether there are any small Burmese concerns interested in the oil business, because very often they do not know what is going on and afterwards they may say they have not had any opportunity of placing their views before the Board. The Board would be very much obliged if you would kindly just give our Secretary a list of such names as occur to you. We shall send out a circular to them and thus give them an opportunity. The Board is going entirely out of its way to do this. It is for the parties concerned to take steps to appear before the Board, but if you would kindly supply this office with any names that occur to you of companies producing crude oil, we should be very much obliged.

The Hon'ble Mr. Gray.—I shall do so.

Mr. Mathias.—Are there a very large number of people producing crude?

Mr. Tait.—Only 5 or 6.

President.—There is one point on which we would like to have information from the oil companies. It is very important for us to find out what the total demand of the country is as regards kerosene and petrol. Roughly speaking the total production and the total imports may be taken as the demand of the country for all practical purposes. We would like to know the production of each company of these different classes of products.

Mr. Tait.—I think that information is available to Dr. Coggin Brown.

Dr. Coggin Brown.—Not by companies, but by fields.

President.—There are two grades of kerosene, superior and inferior. I also see a phrase used which I don't understand and that is "inferior surplus".

Mr. Mathias.—Is that the amount over 195,000 tons?

The Hon'ble Mr. Gray.—Yes.

President.—That is only a figure to me. I would like all the companies as far as possible to give us that information.

Mr. Tait.—That is in respect of kerosene.

President.—Kerosene and petrol as far as possible. Could you also send us a few of your latest balance sheets which are published in the ordinary way? If you could send us 5 copies, it would be useful.

The Hon'ble Mr. Gray.—I will see if I can find as many as that.

President.—We should like also, if possible, to have the speech of the Chairman which is generally circulated with the balance sheet.

The Hon'ble Mr. Gray.—Yes. (Others also agreed to do so.)

President.—Mr. Guthrie, would you also send us copies of your balance sheets?

Mr. Guthrie.—We will send you for 1926. The balance sheet for 1927 is not yet out.

President.—As regards the total production of kerosene and petrol, I would like complete figures for the whole of last year and for the first half year of 1928.



सत्यमेव जयते

**THE BURMAH OIL COMPANY, LIMITED (SCOTLAND),
AND THE ASSAM OIL COMPANY, LIMITED.**

**Evidence of the Hon'ble Mr. W. A. GRAY recorded at Rangoon on
Wednesday, the 25th April, 1928.**

President.—Mr. Gray, you represent the Burmah Oil Company?

Mr. Gray.—Yes.

President.—And also the Assam Oil Company?

Mr. Gray.—Yes.

History of the Burmah Oil Company.

President.—I want to get a few general facts as regards the Burmah Oil Company. Is there any publication which gives the whole history of the Company, its finances and so on?

Mr. Gray.—I don't think that there is any recent publication.

President.—It is really important for us to know that. Of course we can collect the history ourselves with reference to various documents and so on, but I think perhaps you may be able to supply us with a brief history as to its constitution, its original capital, the various stages by which the capital was increased, the nature and prices of the shares, etc.

Mr. Mathias.—Is there anything more recent than this pamphlet? (shows a pamphlet reprinted from the Daily Telegraph, London.)

Mr. Gray.—I don't think there is anything more recent than that.

President.—That contains the speech of the Chairman.

Dr. Matthai.—That is fairly recent, is it not?

Mr. Gray.—Yes.

President.—What we want to know is a brief history of the company, how it started, with what capital; then the various stages showing its expansion, increase in capital and things like that. Perhaps you can also supply us with some of the balance sheets, so that we may be able to find out what its general financial position is.

Mr. Mathias.—Perhaps in stating the increase of capital, you will specify the bonus shares and subscribed shares.

President.—Also give us some recent prices of the shares.

Mr. Gray.—Yes.

President.—Will you also give us the dividends paid by the Company?

Mr. Gray.—Do you want this information right from the beginning of the present company?

President.—Not from the beginning, but from the time when the later expansion started. I think the biggest expansion took place in the early part of this century?

Mr. Mathias.—After 1900 or so?

Mr. Gray.—In 1902. We will give you that information.

President.—I take it that most of the oil properties of the company are situated in India.

Mr. Gray.—Yes.

Dr. Matthai.—Nothing outside Burma and Assam as far as you are concerned?

Mr. Gray.—We have prospecting areas in other parts of India.

Dr. Matthai.—But not actually producing areas?

Mr. Gray.—No.

President.—You have no oil producing area outside India.

Mr. Gray.—No.

President.—Probably you have some interest in other companies operating in other parts of the world.

Mr. Gray.—Yes.

Local supply of kerosene.

President.—If you could give us all the information asked for, I think I need not ask you any questions on those points just now. Generally speaking, is it true to say that as regards kerosene, the production is not equal to the demand of the country?

Mr. Gray.—That is correct.

President.—At present that is represented I take it by the imports. Practically that is what it comes to.

Mr. Gray.—Yes.

Mr. Mathias.—What is the amount exactly of the deficit in production as compared with the demand?

President.—I think it is about 35 per cent.

Mr. Gray.—I think it varies slightly from year to year. Roughly it is about 50,000 tons.

Mr. Cameron.—Before the rate war, it was about 50,000 tons.

Mr. Mathias.—What would it be in percentage? Would it be about 25 or 35 per cent.?

Mr. Cameron.—About 30 per cent.

President.—I think that the Standard Oil Company's imports represent about 25 per cent. and the other imports about 10 per cent.

Mr. Gray.—That is about right.

Mr. Mathias.—What would that be in gallons?

Mr. Cameron.—80 million gallons.

Mr. Mathias.—That would represent how much in percentage?

Mr. Cameron.—Say 30 to 35 per cent.

President.—That is as regards the present. Now as regards the future, judging by the increase in demand, the deficit is likely to increase unless you produce more crude oil. Is that the position?

Mr. Gray.—Yes, if the demand increases.

President.—But the demand has been increasing and you have not been able to keep pace with the demand at all so far, isn't that so?

Mr. Gray.—Yes, the demand has increased.

President.—But the production has not increased so far as it is represented by kerosene. You may be using your crude oil for other purposes. So far as the production of kerosene is concerned it has not kept pace with the increase in the demand.

Mr. Gray.—No.

Mr. Tait.—It has been more or less stationary.

President.—As regards the future we have not got any information just now. Are we to suppose that the position would more or less be the same or are we to suppose that the demand will increase in greater proportion than the supply? What is the view of experts?

Mr. Tait.—If the indigenous companies are allowed to search for oil and develop fields, they will in all likelihood be able to maintain the supply.

President.—Any search for oil is quite a different thing. We do not know what the result of the search will be. What I want to know is: having regard to the knowledge you possess as regards your actual properties

now in your possession, either worked or tried and tested or proved, can you tell us whether if you work only those properties which may be regarded as more or less certain, you will be able to keep pace with the increase in demand?

Mr. Gray.—If no new properties are found, we shall not be able to keep pace with the demand.

President.—Do you mean new in the sense that you have not discovered whether there is any oil in those properties or in the sense that you have not worked them? Those are two different things.

Mr. Gray.—In the sense that we have not discovered any new oil.

President.—Having regard to those properties which you have tested already or prospected or done something, is it your opinion that if you work only those properties, the supply would be shorter than the demand?

Mr. Gray.—I think that—Dr. Coggin Brown will confirm me in this—no wise man would prophesy about oil.

President.—A wise man would never prophesy about anything.

Mr. Gray.—Even in the fields in which we are working, we cannot say that production will not increase.

President.—Excuse me, in these matters we generally act upon certain data. Would you as a prudent man of business act upon the supposition that if you worked your property to the fullest extent possible (which you have got and about which you know) you would be able to meet the demand of the country? As a prudent man of business, how would you act? That is what I want to know; it is not a question of prophesy at all.

Mr. Gray.—In those circumstances I consider that as time goes on the deficit between supply and demand would increase.

President.—That I take it means this. Provided that the relative production of the different products remains the same—supposing you don't change kerosene to petrol, or petrol to kerosene or something else—then this will happen?

Mr. Gray.—Yes.

President.—But it would be possible within certain limits to vary your production to meet the conditions of the market, so that it would be found that if kerosene paid you better than lubricating oil or some other product, you might be able to produce more kerosene.

Mr. Gray.—That is right.

Dr. Matthai.—Is it possible to say within what margin you can vary the production of the various products? Taking a product like kerosene, to what extent could you increase the production of kerosene? Could you increase it, say, by 10 per cent., by decreasing your production of lubricating oil or other products?

Mr. Gray.—We could.

Mr. Mathias.—The Burmah Oil Company has, so far, not adopted the system of cracking oil?

Mr. Gray.—We are erecting a plant for that.

Mr. Mathias.—If you undertake cracking on a considerable scale, you will increase your petrol but you will decrease the amount of kerosene.

Mr. Gray.—It would increase both.

Mr. Mathias.—Which product would you decrease?

Mr. Gray.—We would decrease what would be used as fuel.

Mr. Mathias.—Do you consider that the production of kerosene would be considerably increased by installing a cracking plant?

Mr. Gray.—It is rather difficult to say until we actually work the plant and see what we could produce.

Mr. Mathias.—You must have some estimates in your possession.

Mr. Gray.—I should say we might increase it by as much as 10 per cent.

Mr. Mathias.—What about petrol?

Mr. Gray.—It is difficult to say.

Mr. Mathias.—I want you to give us only a general idea.

Mr. Gray.—One could not increase either by more than 10 per cent.

President.—It practically depends on the contents of the crude oil.

Mr. Gray.—Different crude oils yield different products.

President.—There will be a certain percentage out of which you cannot get any oil.

Mr. Gray.—There will be a certain amount.

Mr. Mathias.—You could increase your lubricating oil to some considerable extent by decreasing your production of kerosene.

Mr. Gray.—Not very considerably, I think.

Mr. Mathias.—Not at all?

Mr. Gray.—I think you want a refining expert, which I am not, to give you that information.

Mr. Mathias.—You just told us that by your cracking process you could increase your kerosene and petrol and decrease your lubricating oil. It seems to me that it might be possible for you to vary your output of kerosene and decrease your kerosene and increase your lubricating oil by some slight variation in the process.

Mr. Gray.—It might be possible, but I am afraid I cannot say to what extent.

Mr. Mathias.—Lubricating oil is not affected by the price war.

Mr. Gray.—No.

President.—Is there a general analysis published of the composition of the crude oil?

Mr. Gray.—Do you mean the various products which are extracted from it?

President.—Yes. We can always get general information, but you can quite understand that it would be much better for us to get it from you. It is not a great secret what your crude oil contains.

Mr. Gray.—There are an enormous number of variations.

President.—I am talking of the average.

Mr. Gray.—I will give you these figures.

President.—It seems to me that there is a certain quantity still left which must be supplied to the country, which if you are not able to supply, some other country must do so, and therefore the possibility of a continuous war exists as regards that field.

Mr. Gray.—There isn't necessarily a possibility of war, but there is possibility of competition. The present price of kerosene is uneconomic.

President.—Apart from that, if the country needs that kerosene and you cannot supply it, there are competitors for that margin. They must compete amongst themselves; competing amongst themselves they must compete against you, and therefore at some time or other, unless you come to some agreement—sometimes you do come to agreements—the cause of war remains, isn't that so? How can you get over it? Supposing you are not able to produce any more, even by cracking or any other process, when you reach a limit where you find nothing more can be done and you have to look for oil elsewhere, while you are looking for fresh fields during that period do you think you can get away from some sort of a price war which must extend to the whole market?

Mr. Gray.—I think we can get away from that. If we cease to have sufficient products to control the market, other companies would come in from outside and sell at a higher rate than we are doing at present. The effect of the control which the indigenous companies have of the Indian market is to keep prices down.

President.—I am not referring to that: I am referring merely to the quantities. Supposing you are not able to maintain the market with your own production, then there is still a certain margin for which there must be a fight. I am assuming your existence and I am assuming that you would be able to compete against them. Even then I put it to you whether there is any getting away from a sort of war as regards this deficit?

Mr. Gray.—Do you mean price war or merely competition?

President.—Competition or whatever you like to call it.

Mr. Gray.—Price war involves reduction of rates.

President.—We shall take this concrete case of the Standard Oil Company and the Royal Dutch Shell Group. They see that there is a market for 35 per cent. of the demand in the country which India cannot supply; they say "let us have a go and see what we can do". The Standard Oil Company and the Royal Dutch Shell Group say "we must compete", "we must carry on this war"; until they decide the issues themselves and assuming there are two competitors is there any escape from a price war?

Mr. Gray.—There is no question of a price war.

President.—If you want a market in which you are not already, you have got to reduce the price, there is no getting away from it.

Mr. Tait.—Would you call it war or competition?

Mr. Gray.—We will call it competition. The Standard Oil Company or other outside companies will bring in that volume of oil in India and they will sell it at a price at which they can buy at the source of production plus transport and landing charges; they will not sell below that.

President.—Either you must have some superior quality which must establish itself in the market or you must give some inducement to the consumer when you are a newcomer.

Mr. Tait.—It is a question of supply and demand. If the demand is 35 per cent. more than the supply

President.—Mr. Gray, what do you say about this? Somebody has got to supply this 35 per cent. you cannot do it; there are various competitors, and therefore is there any escape from this reduction in price in order to compete against one another so long as they have no name in the market?

Mr. Gray.—I don't think there is any likelihood of a reduction in price in such a case. For some time past the indigenous companies have not been able to control the market and they have made arrangements with outside companies to import oil and keep prices down.

President.—If everybody agrees with everybody else there is no war. What I want to know is, if you cannot come to any agreement with your competitors, is there any escape from this war if this margin has to be filled by somebody?

Mr. Gray.—There will be some increase in the price if there is no arrangement as we found at the end of the war. The reason why the kerosene pool was started was that the foreign importers brought their oil here and they were unwilling to sell the oil at the low price at which the indigenous people were selling their kerosene. The indigenous people continued to sell at a low price but the middleman sold the oil at the price at which the importers were selling.

President.—That will happen for some time. I do not know how the oil business is conducted, but my point is this. Assuming there are no arrangements or agreements—we know they are very common in many industries—but supposing there are no agreements, how is an outsider who has not got a footing in the market to come in except by a price war? I am asking you generally whether there is any escape from it?

Mr. Gray.—I have tried to explain that. Without any arrangement prices will go up if the indigenous oil companies cease to be able to control the market.

President.—I was assuming all along that you are able to compete. You have 65 or 70 per cent. of the market which you are able to control. But as regards the remaining 35 per cent. is there any escape from the possibility of war if a new company wants that part of the business?

Dr. Matthai.—Between the importing groups.

Mr. Gray.—I suppose there is not.

Dr. Matthai.—Would you care to accept a position like this? With regard to this balance of 35 per cent. normally there would be fair competition between importing groups but occasionally there is bound to be price war. In the present condition of the Indian market there is possibility of development of a price war. The price war may end this year; it may possibly develop again.

President.—The germ always exists.

Mr. Gray.—If the price in the Indian market is sufficiently attractive for importers then no doubt they will fight for it.

President.—First of all prices have got to be attractive if foreign kerosene is to be imported into the country. You cannot meet 100 per cent. demand with 65 per cent. and therefore there is a market which they can enter, and then having entered the market, in order to keep their predominance in that market the time must come when there will be a price war.

Mr. Gray.—At present kerosene is being imported into India and sold at a price which is not attractive for foreign importers.

President.—That is a point which we are going to investigate and if you can satisfy us on that point you will make a good case.

Dr. Matthai.—Actually this is not the first time that a price war has occurred as regards the Indian field?

Mr. Mathias.—You had a rather extensive price war before 1905 that was comparable in intensity with the present price war.

Mr. Gray.—At that time I had no connection with the oil business.

Mr. Mathias.—You will have some records. If so would you look them up and let us have that information at a subsequent sitting?

Mr. Gray.—I will.

Supply of petrol.

President.—As regards petrol the position is rather different. You are able at present to supply the whole demand of the country.

Mr. Gray.—Yes.

President.—But the demand has been increasing and it may go on increasing and in that case are you more or less in the same position as in the case of kerosene that there will be a deficit again assuming that you had no time to look for fresh fields?

Mr. Gray.—So far as I can see at present that will be the position some day, I cannot say when.

President.—There has been a continuous increase in the demand for petrol and other things being equal the demand must increase. In your opinion if no new fields are found when will you run short of petrol?

Mr. Gray.—I should think in probably two or three years.

Mr. Mathias.—Is there any possibility of increasing your supply by methods of gas stripping and the cracking process? Both these methods would considerably increase your supply.

Mr. Gray.—I am taking all that into consideration.

Mr. Mathias.—Your plant for stripping gas is not at present very efficient. It could be improved, could it not?

Mr. Gray.—Yes.

Mr. Mathias.—You might double the output that you are at present obtaining by improving the plant?

Mr. Gray.—Yes.

President.—Without sacrificing other products?

Mr. Gray.—Yes.

President.—At present you are using up most of your gas in the oil fields?

Mr. Gray.—Yes.

Mr. Mathias.—Is it not a fact that you are at present importing fuel oil from Persia to your oil fields so that you may not use up all your gas?

Mr. Gray.—Yes.

President.—I understand your plant is not quite up to date?

Mr. Gray.—I agree. It is not the best possible plant.

Dr. Matthai.—There is a big difference between petrol and kerosene, that is to say as regards petrol by better utilisation of the gas you can increase your production in bigger proportion than you can in the case of kerosene. If there was a deficiency in the market it might be possible for you to meet the demand more easily as regards petrol than kerosene.

Mr. Gray.—Yes.

President.—Taking all these factors into account as regards possible expansion in the production and so on, how long, in your opinion, would it take before there is a deficit?

Mr. Gray.—I should say with conditions as at present and taking into consideration our new plant, it would be two to three years. There is always the possibility of utilizing the gas to a greater extent and increasing the supply of gasoline, but I am not taking that into account when I say two to three years.

President.—When you did that how much petrol would you be able to get? Have you formed any estimate?

Mr. Gray.—We have not considered that point.

President.—I suppose there is no immediate necessity for it?

Mr. Gray.—No.

Relations with the Royal Dutch Shell Group.

President.—What precisely is the general relation between the Burmah Oil Company and the Royal Dutch Shell Group so far as the present controversy is concerned?

Mr. Gray.—Originally there was the kerosene pool which we arranged with the Asiatic Petroleum Company. We both contributed to this pool and the prices were based upon the current American gulf port prices, and the freight rates.

President.—Those are rates at which each party to the pool was paid. That is what you mean.

Mr. Gray.—Yes. The prices at which the indigenous companies contributed to that were as follows. For 195,000 tons per annum it was Rs. 2-14-0 plus the excise duty per unit of 8 gallons.

Mr. Mathias.—That is inferior kerosene.

Mr. Gray.—Yes.

President.—That was the price at which they were to be paid.

Mr. Gray.—Yes.

President.—That is to say yourselves and the other companies.

Mr. Gray.—Yes, all those who contributed to the pool.

President.—Why this 195,000 tons more than any other figure?

Mr. Gray.—That was the figure for which we arranged to quote our maximum price policy of Rs. 2-14-0 per unit. In the year 1905, 195,000 tons was approximately the amount of inferior kerosene sold.

Mr. Mathias.—What was the origin of this special price for inferior kerosene? Was it a suggestion of the Government of India or was it the companies themselves that brought it into being?

Mr. Gray.—I should think probably there might have been some suggestion by the Government of India. I have not seen any correspondence on the subject.

President.—That was, was it not, more or less the price of kerosene in those days.

Mr. Gray.—Yes.

President.—That represented the market price.

Mr. Gray.—Yes.

President.—That price must have had reference to the then gulf price.

Mr. Gray.—I don't know.

President.—You must have fixed those prices in those days with reference to some thing.

Mr. Mathias.—It would have been with reference to the then existing prices.

Mr. Gray.—I don't know.

As regards inferior kerosene it will have no connection whatever with the gulf price. Inferior kerosene is not produced in America.

Mr. Mathias.—It would be with reference to some percentage below the gulf price for superior kerosene. It must have been with reference to some prices.

Dr. Matthai.—Would it probably have been this way? At present you discount 4 annas as between inferior and superior.

Mr. Gray.—Yes.

Dr. Matthai.—Supposing Rs. 2-14-0 was the discounted price of inferior kerosene in those days, probably the superior kerosene, let us say, was imported at Rs. 2-14-0 plus 4 annas.

Mr. Gray.—It would be more than that. The contributing prices to the pool were not the same as the selling prices to the consumer.

Mr. Mathias.—There must be papers in your office showing how these prices were fixed.

Mr. Gray.—May be.

Mr. Mathias.—If it had been fixed at the instance of the Government of India, there must have been some correspondence and the whole thing must have been explained. Would you mind looking it up?

Mr. Gray.—They may not be here; they may be in London.

Dr. Matthai.—When the oil is purchased by the kerosene pool from the contributing companies this 195,000 tons is divided relatively. I take it that you have got to take so much from the British Burma Petroleum Company Limited and so on. Is it divided according to the volume of production?

Mr. Gray.—There is what we call the free volume of 1,000 barrels a day. If a company does not refine 1,000 barrels it doesn't contribute any of this low-priced kerosene at all. The quantity produced in excess of 1,000 barrels per day is contributed to the pool at Rs. 3-6-0 in proportion to the volume of production.

Mr. Mathias.—This Rs. 3-6-0 is net.

Mr. Gray.—It is *ex-main* ocean installation India.

Mr. Mathias.—That would be something less from their own refinery.

Mr. Gray.—Yes.

Mr. Mathias.—The difference between the two would be made up, in what way, by the Burmah Oil Company's commission or what.

Mr. Gray.—In the case of the British Burma Petroleum Company, the Burma oil gets commission.

Mr. Mathias.—What would that amount to?

Mr. Gray.—5 per cent.

President.—At this stage I don't wish to go into this question of pool. I only wanted to know the general financial relation between yourselves and the Royal Dutch Shell Group.

Mr. Gray.—There is no relation apart from the pool.

President.—But there is an agreement, is there not, between yourselves, that that group is to be allowed to supply the deficit.

Mr. Gray.—Yes.

Mr. Mathias.—That is all. They are not entitled to import further than that.

Mr. Gray.—No. Part of the understanding is that the indigenous oil companies have the first claim to the Indian market.

President.—Whatever the indigenous oil companies cannot supply, they will supply. What benefit do you get by allowing them this? You simply deny them the privilege of a war against you.

Mr. Gray.—The benefit that we get is they recognise that we have the first right to the market in India. The other benefit is not to ourselves, but to the Indian consumer. It keeps the price down.

President.—We will deal with the Indian consumer presently. What I want to know is this. By this arrangement, does the Burmah Oil Company—apart from the question of pool, benefit in any way? Have you got any share in the business the Royal Dutch Shell Group does outside India?

Mr. Gray.—No.

President.—You are quite clear about that.

Mr. Gray.—Yes. I am afraid that people may not believe it, but that is really the sole object of the pool which is to get for the indigenous companies the first right to the market and to benefit the Indian consumer.

Mr. Mathias.—Your company is not a shareholder in the Royal Dutch Shell Group.

Mr. Gray.—No.

President.—That company has got no shares in yours also.

Mr. Gray.—No.

President.—This arrangement, I take it, came into operation after the war.

Mr. Gray.—Kerosene pool came into operation in 1919 after the world war, not the kerosene war.

Dr. Matthai.—The maximum price policy came into existence in 1905, but the kerosene pool in 1919.

Mr. Gray.—Yes.

Mr. Mathias.—Before 1919 had you any working arrangements with the Anglo Dutch affecting the sale of kerosene? How was it that the indigenous companies managed to get their claim to the home market recognised? Previous to 1919 didn't you have any arrangement with the Royal Dutch?

Mr. Gray.—There was an arrangement; or perhaps, rather an understanding.

Mr. Mathias.—Really the arrangement of the kerosene pool in 1919 one may say codified the existing understanding which was come to previously so far as the competition of the Anglo-Dutch was concerned.

Mr. Gray.—It was an arrangement to get over the difficulty. We could not without such an arrangement keep the prices down in India.

Mr. Mathias.—I was referring merely to the recognised claim of the indigenous companies to supply the home market. This was recognised by the kerosene pool arrangements in 1919, but also before that, there was some understanding, was there not?

Mr. Gray.—Yes, there was some understanding.

Mr. Mathias.—So that really the kerosene pool in that respect was merely continuing the previous understanding which had been come to between the Royal Dutch and yourselves.

Mr. Gray.—Yes.

Dr. Matthai.—You say that one of the main objects of the kerosene pool is to have the right of the indigenous producers to the home market recognised. I take it that you don't accept the contention of the Standard Oil Company that they also recognise the principle that the indigenous production must have the first claim on the Indian market. The Standard Oil Company, for example, have told us that as far as they are concerned all these years they have accepted the principle that the indigenous production must have the first claim on the Indian market.

Mr. Gray.—Probably they think that the indigenous companies are welcome to their home market, since the prices are not attractive. Perhaps it is another way of saying the same thing.

President.—Did you have any price war with the Standard Oil Company at any stage in the history of their business in this country? Did the Standard Oil Company try to capture the market that you had at any time? I am not referring to the present at all. They have been here for about 35 years. What I wish to know is have their relations been otherwise than friendly to the Indian industry in the same way as the Royal Dutch Group or have they behaved differently so far as the indigenous industry is concerned?

Mr. Gray.—They have never shown any desire to consider the Indian consumer.

President.—We will deal with the consumer later on.

Mr. Gray.—But the Royal Dutch have shown that.

President.—Did you ask the Standard Oil Company to cater for the Indian consumer?

Mr. Gray.—I am afraid I cannot say.

President.—What I wish to know is that so far as the Standard Oil Company is concerned—leave alone the poor consumer for the moment—has there been any difference between the behaviour of the Standard Oil Company and the Royal Dutch Shell Group towards the indigenous industry?

Mr. Gray.—There has been a difference between the two, because the Standard Oil Company confine itself to one of the high priced products.

President.—So far as your industry is concerned, have they tried to cut into your market any more than the Royal Dutch? That is what I wish to know.

Mr. Gray.—I don't think they have.

Costs.

President.—I want to ask you one very general question as regards costs. Supposing other things being equal both in America and here, would it be right to assume that the costs, say, at the wells and at the refinery would be about the same order?

Mr. Gray.—You mean the same in Burma as in America.

President.—Supposing you work a well of the same depth.

Mr. Gray.—Probably it would be higher in Burma.

President.—A little higher perhaps.

Mr. Gray.—Because we have to import all raw materials whereas they have them on the spot.

President.—On the other hand your wages may not be so high.

Mr. Gray.—I think there is very little difference in wages.

President.—There would not be any very considerable difference.

Mr. Gray.—It is very difficult to say. For those reasons one would naturally expect that the costs would be higher in Burma than in America.

President.—I can tell you this much of our experience. We have enquired into other industries. Except in the case of a very young industry, the costs have not been higher other things being equal and in some industries the costs have been definitely lower.

Mr. Gray.—I am afraid I have no information about American costs.

President.—You consider that because you have to import machinery, stores, etc., your costs may be higher. Is that right?

Mr. Gray.—Our costs will be higher per gallon of products. It depends entirely on how much we get out of the well. For a well of the same depth producing the same amount of oil in Burma the costs will be higher.

President.—But not very much higher.

Mr. Gray.—We have to import American drillers who are probably paid higher here than they are paid in America.

President.—We don't wish to go into all those details. There may be some difference, but it is not a difference that you may consider decisive. It would not turn the scale entirely against you.

Mr. Gray.—Quite; assuming other things are all equal.

Dr. Matthai.—Is there any difference as far as you can tell from your experience in recent years between America and Burma as regards flush production? That is to say, have you been able to get in Burma the advantages of flush production to anything like the extent they get in America?

Mr. Gray.—The flush production is very much greater in America. We consider ourselves lucky if we have 200 barrels. I think there is one well in America from which they get about 65,000 barrels.

Dr. Matthai.—You don't consider that a factor which should be taken into account in judging relative costs in America and Burma.

Mr. Gray.—Obviously the production per well has a very large bearing on the costs.

Dr. Matthai.—All that I am trying to suggest is supposing it is established, say, on the past 20 years experience that in the American oil producing areas, they have been able to secure a much bigger proportion of the output as the result of flush production, then obviously taking the average costs for the 20 years, their costs must be very much less than yourselves from that particular point of view.

Mr. Gray.—What do you understand by flush production?

Dr. Matthai.—As far as I understand the technique of oil, you carry on drilling operations up to a point and then you strike a particular layer where without any kind of operating expenses simply by pressure of gas, you get an enormous amount thrown on the surface which is crude oil that you get almost for the asking.

Mr. Gray.—Not exactly for the asking.

Dr. Matthai.—That is practically what it comes to. Apparently you don't consider that a material factor.

Mr. Gray.—There is very little of that sort of production in Burma.

President.—What is the length of the pipe line?

Mr. Gray.—275 miles up to Yenangyaung and about 30 miles from there on to Singu.

President.—Are you connecting Singu with Rangoon?

Mr. Gray.—Singu is in direct connection with Rangoon.

Mr. Mathias.—You have been declared common carriers?

Mr. Gray.—Yes.

Mr. Mathias.—You actually don't carry for other companies.

Mr. Gray.—We had no occasion to do that yet.

President.—That is all to the interest of Government.

Mr. Mathias.—No occasion has hitherto arisen in which another company asked you to carry.

Mr. Gray.—No.

President.—Is that about the distance from the Gulf ports to the average oil fields in America?

Mr. Guthrie.—It is very much greater than that to the Gulf ports—about 800 to 1,000 miles from Texas to the Gulf ports.

President.—Where are the refineries?

Mr. Guthrie.—At the ports.

President.—Can you give us any idea as to what the average rate of royalty works out on the whole production?

Mr. Gray.—The rate of royalty is the same all over Burma, 8 annas a barrel.

Mr. Gray.—Yes.

President.—They also require a licence fee, do they not?

Mr. Gray.—Yes, licence fee, boiler taxes, etc.

President.—I am asking you what a purchaser of oil would have to pay by way of royalty to the owner of the mine.

Mr. Gray.—8 annas a barrel.

President.—How does that compare with the average rates of royalty in the United States of America?

Mr. Cameron.—In America you buy the land and get the minerals. The State is not the owner of the mineral oil.

Mr. Mathias.—This eight annas is what you pay to the Government?

Mr. Gray.—Yes.

Mr. Mathias.—Do you pay anything more to the landowner?

Mr. Gray.—We hold the land under lease from Government.

Mr. Mathias.—Do you pay compensation for the surface damage?

Mr. Gray.—We do.

Mr. Mathias.—What is the amount?

Mr. Gray.—It is not laid down.

Mr. Mathias.—Is each case decided on its merits?

Mr. Gray.—Yes. In some cases there is no compensation at all.

Mr. Mathias.—Is it the case that you pay only a royalty of eight annas in regard to oil?

Mr. Gray.—Yes.

Mr. Mathias.—Dr. Coggin Brown tells me that in the Twinya Reserve, you pay eight annas more.

Mr. Gray.—Yes.

Mr. Mathias.—In that case, the royalty would be one rupee.

Mr. Gray.—Yes.

Contact with Soviet Russia.

President.—I want to ask you a few questions about the agreement of the Standard Oil Company with the Soviet Russia which you have dealt with in paragraph 7 of your statement. Is this information, so far as you are concerned, fairly accurate that they have got a contract for 150,000 tons?

Mr. Gray.—All the information that is contained in this representation has been received from London.

President.—Is that the kind of information on which you would ordinarily act? I cannot say more than that. What I want to know is this: is that information such that we can accept as ordinary prudent men?

Mr. Gray.—I think my principals would not make a statement of that kind to the Government of India unless they are sufficiently satisfied that the information is more or less accurate.

President.—Can we take the information as more or less reasonably accurate?

Mr. Gray.—Yes, in my opinion.

President.—You suggest the price as 5 cents a gallon in that.

Mr. Gray.—Yes; it may be, if anything, even less than that.

President.—Shall we take 5 cents, or what shall we take?

Mr. Gray.—I have no first-hand information on that point.

President.—It is very important for us to know what your case is. That really speaking forms the basis of your claim. You allege that the price they have paid is unremunerative and that it is a dumping price. We must have some figure before we can judge whether what you say amounts to an unfair competition. What figure are we to take?

Mr. Gray.—I hear that the contracts have been fixed even at lower prices. But of course I have not got first-hand information.

President.—You have given the price as 5 cents. You also say that the current Gulf price then would be 6½ to 7 cents. What are we to do? If you are not prepared to act upon that figure, how are we to act on that?

Mr. Gray.—I cannot give you any first-hand information. Another way of looking at it is that perhaps it is necessary for them to disprove that figure.

President.—We will ask the Standard Oil Company when they come to give evidence before us. I am asking you what your case is. Is it your case that even if they got it at 5 cents, that price does not represent a fair price?

Mr. Gray.—It did not at that time.

President.—You say that it is a contract for three years.

Mr. Gray.—So my principals say.

President.—I am asking you having regard to one factor which is this that at the time this contract was apparently made, the feeling in the oil business was that there was over-production in the United States of America and other parts of the world.

Mr. Gray.—Yes.

President.—And that if that continued, the prices would naturally drop, is not that so?

Mr. Gray.—Yes.

President.—A man making a forward contract for three years for a large quantity, how would he look at the situation? Supposing I asked you to make an offer for three years in a declining market, what would be your position?

Mr. Gray.—I think that it would be very rash to make a contract for three years.

President.—Why should it be rash? It is business. It is not any more rash than making a short term contract. The prices are declining. Now the price is 6½ cents. But if this overproduction goes on, it may drop to 3 cents. If a fellow offers me at 5 cents per gallon, I can insure myself at 5 cents and close. Is there anything rash in a man looking at a forward contract in that light?

Mr. Gray.—Nobody can blame anyone for making the best bargain he can.

President.—The allegation made is that the price of 5 cents for a large quantity in a declining market was an unremunerative price to them. Do you really consider it so?

Mr. Gray.—From the point of view of the purchaser?

President.—Supposing you were the seller?

Mr. Gray.—Certainly.

President.—Why?

Mr. Gray.—I should think it was a bad price.

President.—That is because you don't make any long term contracts ordinarily. There is no rise and fall clause in this. Both the purchaser and the seller entered into a long term contract in a declining market. The whole question is whether under those circumstances the price of 5 cents was not an economic price.

Mr. Gray.—Anybody who knew anything about our business would realise that as steps are being taken to curb this over-production in America, the market will probably recover.

Mr. Mathias.—What is the present price in America?

Mr. Cameron.—Last year it was about 6½ cents to 7 cents.

Mr. Mathias.—Between that time and the time when this contract was closed there had been lower prices.

Mr. Gray.—Yes.

Mr. Mathias.—What was the lowest price?

Mr. Gray.—The lowest I heard was 5½ cents.

President.—In the penultimate paragraph of your statement, dated the 15th December, 1927, you say that you had an offer of 5,000,000 barrels—nearly a million tons—of Winkler Country Texas Crude at 1.28 dol per barrel. Now what does that work out per gallon?

Mr. Gray.—You cannot compare that with the price of kerosene, because that is the price for crude oil.

President.—What does that work out to?

Mr. Gray.—How do you mean?

President.—First of all give me the price of crude oil per gallon. You describe it as distress price, and I wish to know in terms of petrol and kerosene. I only want to know what your statement means.

Mr. Gray.—It means that the price is very low compared with other quotations for crude oil in America.

President.—What relation has that got to kerosene? You must have had something in view. You must have tried to show that that was the drop in the price of crude oil and that would be reflected in the price of kerosene in such and such a way.

Mr. Gray.—Not necessarily.

President.—What inference am I to draw from this?

Mr. Gray.—The inference is that the market is in a depressed state and that America does not know what to do with all the oil it has got and in spite of that it goes to Russia.

President.—Don't you think that the Soviet Russia has made a good bargain if that is the position?

Mr. Gray.—Not for six years.

President.—From the Soviet Russia's point of view was not that a good bargain and conversely from the Standard Oil Company's point of view wasn't that a bad bargain?

Mr. Gray.—It was not

President.—Having regard to these figures? You said that this was distress oil at this price. It means that the price was below what it ought to be. You are not able to tell me whether the price of 5 cents, interpreted in terms of crude oil was below or not.

Mr. Gray.—At the time the contract was made, 5 cents. was below.

President.—In term of the price of crude oil? That is what I want to know. Supposing you had to buy crude oil in America at that price, would you have been able to sell your kerosene at 5 cents a gallon?

Mr. Gray.—It depends upon the prices at which we can sell our other products.

President.—I do not know anything about that. I only go by what you have said. If the price of crude oil had dropped to that level which you considered very low, then do you consider that the price of 5 cents was really a low price having regard to the conditions of the market and having regard to these prices. That is all that I wish to know.

Mr. Gray.—It is very difficult to say. I do not know whether these prices of 5 cents and 1-28 dollars were current at the same time.

President.—This was about December. The market has gone away from the original figures. So, to that extent, the Soviet Russia has scored over the Standard Oil Company if these figures are correct.

Mr. Mathias.—It comes to 2-8 cents per gallon of crude.

Mr. Gray.—About 3 cents.

President.—Taking your costs, you ought to be able to judge, if the crude oil is sold at that price, at what price you can afford to sell, in the present conditions of the market, your kerosene, petrol and other products; whether you can sell your kerosene at 5 cents if you get the crude oil at that rate.

Mr. Gray.—We know nothing about the crude in question; we cannot possibly tell you what it contains.

President.—You cannot have it both ways. You said that the price of 5 cents was a very low price and at the same time you say that crude oil had dropped so much.

Mr. Gray.—Yes and the price the Standard Oil Company pays to the Soviet has also dropped.

President.—If you say the price to the Soviet has also dropped that is a different matter. But you have said nothing about it. So far we have no information on that point. What is the price of crude oil just now when the price of kerosene is 6½ cents in the United States of America? Will you please give us that? We want the price of crude oil from, say, September and the price of the relative products, petrol and kerosene, in the United States of America. They must bear some relation.

Mr. Tait.—There are so many degrees of crude oil; we have got to fix on one standard. For example the Pennsylvania crude oil is a very superior class oil while the Texas crude oil is of a poorer quality.

President.—Would you get us the price of kerosene from that particular area and the price of the crude oil? The thing is to get the price of the components in the crude; it would certainly be known to the business, how much of each product you can get and therefore it would be known by calculation what each products would cost. Each area would have its figures for its products. I don't want you to tie yourself down to one cent or two cents. You may give us that information.

Mr. Gray.—We will.

President.—Then as regards the Soviet oil you claim that there are two directions in which that oil has an advantage. We are not going into the moral aspect of the question at all; we have not got the time and we do not think it necessary to do so. As regards the price you allege that it is lower than it should have been and that as regards freight also they have an advantage.

Mr. Gray.—That is right.

President.—As regards freight is that really a grievance? A man naturally chooses the nearest market for purchasing his goods. In your case freight plays a different part altogether I am asking you, is that a ground to allege against your competitor that he purchases in the nearest market?

Mr. Gray.—No, it is not a grievance, but you cannot rule out the moral ground altogether.

President.—Let us get down to the real facts. Do you really allege that this is a grievance that one of your competitors goes to the nearest market and purchases his oil there?

Mr. Gray.—No.

President.—As regards this world parity of prices it simply means this that what you call world parity price gives each producer the fullest advantage that he can get from his geographical position. That is the essence of the theory of world parity of prices.

Mr. Gray.—Yes, I suppose that is what it means.

President.—The price has no relation whatsoever to what one may call the natural value. What it really means is that so far as the producer is concerned he must get the price that an importer would get from the next nearest uncontrolled market.

Mr. Gray.—Yes.

President.—Let us see what advantage you have compared to, say, the Soviet. In calculating the world parity price you take first of all the f.o.b. Gulf port price. Is that correct?

Mr. Gray.—Yes.

President.—That price I suppose can be easily obtained?

Mr. Gray.—Yes, there are public quotations.

President.—What are the journals in which you get this information?

Mr. Gray.—Petroleum Times.

President.—Could you give us a few of these? If there is one among them which will bear some authority on this question we will be satisfied with that.

Mr. Gray.—Yes.

President.—I think we have asked for Gulf port f.o.b. prices. Are you getting them for us?

Mr. Gray.—You want for the last 20 years. I am afraid I cannot get these from my principals.

Dr. Matthai.—How far back could you get these?

Mr. Gray.—I have no figures here; my principals think that this is a point on which the terms of reference have no bearing.

President.—There is nothing confidential in these prices that the company should take up that attitude. We could get the prices, for instance, for iron and steel for 50 years. This is an information which can be made available, it is simply to save time that we ask you.

Mr. Gray.—I believe Mr. Tait is producing them.

President.—Every well organized company will have its records to see what was happening from year to year. There cannot be anything confidential.

Mr. Gray.—I have no doubt they have the figures.

President.—It simply means this that we have got to collect this information which may take some time.

Mr. Gray.—I think if the Indo-Burma Petroleum Company produces these figures it is not necessary for me to produce them.

President.—I am only suggesting to you that if the figures were produced by the companies themselves it would save us time and it is to your interest that time should be saved.

Mr. Gray.—That is so.

President.—What did you say is the Gulf port price at present?

Mr. Gray.—7 cents according to our information.

President.—That is a hopeful sign for you! On top of that you have the freight. Do these freights change very much?

Mr. Gray.—They fluctuate a good deal.

President.—What is the extent of fluctuation, say, during the last four months?

Mr. Gray.—I am afraid I have no figures with me but I will get the same for you.

President.—In arriving at some figure we must adopt a particular date. Supposing we took March or April and then wanted to calculate the c.i.f. landed price here, should we be right in adding this freight of £3-2-8 per ton?

Mr. Gray.—I think that would be correct.

Mr. Mathias.—That freight rate varies according to port, does it not?

Mr. Gray.—Yes.

Mr. Mathias.—Could you give us details for each port?

Mr. Gray.—Yes.

President.—Then you add the import duty and then profit at 10 per cent.

Mr. Gray.—On the landed cost.

President.—Yes. That means perhaps 15 or 20 per cent. on the price. Why should we add 10 per cent. to the freight?

President.—It comes to 25 per cent. on the price and 10 per cent. on the turnover. Is that the amount which is ordinarily allowed?

Mr. Gray.—That is the amount we always allow.

Mr. Mathias.—Is that the amount you allow in calculating your kerosene price?

Mr. Gray.—Yes.

Mr. Mathias.—Is that the ordinary market rate? It seems high. 10 per cent. on the turnover will come to a very large sum.

President.—If you took your turnover and got 10 per cent. on that, you would be able to give a pretty good dividend.

Mr. Gray.—If you look at it that way, it would hardly be fair.

President.—Supposing we were to calculate your fair selling price, would you expect us to give as much as 10 per cent. on the turnover or what?

Mr. Mathias.—Would not 10 per cent. on the capital employed throughout the year be considered as adequate?

Mr. Gray.—That is a matter of opinion.

Dr. Matthai.—Ordinarily this is what corresponds to importers' commission. The kerosene pool is really importing and this profit of 10 per cent. would ordinarily be regarded as importers' commission. From that point of view 10 per cent. seems very excessive. If I were importing kerosene oil after paying my landing expenses, f.o.b. and so on and I charged 10 per cent. on the whole landed price, obviously as an importer that would be my commission.

Mr. Gray.—I should think so.

Dr. Matthai.—In that case 10 per cent. is importers' commission.

Mr. Gray.—That is all they get. They get no further profit after that.

Mr. Mathias.—Do they get 10 per cent. commission or is it merely a figure?

Mr. Gray.—It is a figure used to arrive at that price.

Mr. Mathias.—Is it based on any facts?

Mr. Gray.—I don't quite follow you.

Mr. Mathias.—Is this based on enquiries made from importers? Is that the rate which they actually do charge?

Mr. Gray.—I have just given the calculation by which we have arrived at the price the contributors of oil to the pool receive.

Mr. Mathias.—In arriving at your pool price, when you take an item like profit, you must base your figure on something. Would you base it on what you consider reasonable?

Mr. Gray.—Yes, on what we consider reasonable.

Mr. Mathias.—Before you decide on allowing something which you consider as reasonable, would you enquire from any importers of oil?

Mr. Gray.—I shall look into it.

Mr. Mathias.—What are their rates?

Mr. Gray.—I don't know.

Mr. Mathias.—Could you find it out for us?

Mr. Gray.—Do you mean that we should enquire from the Standard Oil Company as to what profit they made?

President.—You fix your price on what you call the world parity prices. Now the point arises what have you taken into account in fixing your price? That is to say this charge of 10 per cent. that is given here, is that an adequate remuneration for the kind of business that is involved in importation? Here of course you are both a producer as well as a seller. What I wish to know is this in considering whether your prices which were based on the world parity prices are reasonable having regard to the conditions of the business and what we wish to know is, do you regard 10 per cent. on the turnover as a reasonable amount?

Mr. Gray.—Yes, it is a reasonable figure.

President.—Supposing that percentage was applied to production, would that give you the amount of remuneration that you expect from an investment or would it be more or less? You ought to know what your turnover is. I want to ask you whether it bears a reasonable return which the oil business ought to give. It must have some relation with that. We have done with the importer. This determines the price of the manufacturer or the producer. You have taken that into account. I want to know whether that represents the return that you ought to get on your industry.

Mr. Gray.—It is not a question of dividend one pays, but it is a question of profit which one makes which is a different thing.

President.—You could pay your dividend out of your reserves.

Mr. Gray.—You retain your profits in the business.

President.—Instead of giving me a dividend you can give me a bonus share which is much more paying. Supposing you were a company merely giving a dividend in the ordinary way, then would you consider this return of 10 per cent. on the turnover a reasonable equivalent of dividend?

Mr. Gray.—I think as a producer, I should say no. As a marketer, yes.

President.—As a producer is it too much or too little?

Mr. Tait.—Producer too little and marketer just enough.

President.—I think, Mr. Gray, you have given us a table at the end of your later statement showing the world parity prices and your average realised prices.

Mr. Gray.—Yes.

President.—What I would really like to have is not your average realised price because owing to this 195,000 tons it is a lower average than it would be for the rest of the kerosene. So, could you give us the two separately?

Mr. Gray.—Yes, we can give you for superior and inferior kerosene separately.

President.—Do you get the same price for what you call surplus inferior kerosene as for superior?

Mr. Gray.—No. The surplus inferior and the inferior kerosene which is bought by the pool at Rs. 3-6-0 are sold at the same price, but the superior oil is sold at a higher price.

President.—The prices of surplus inferior and the 195,000 tons are the same.

Mr. Gray.—The market price is the same, but the prices at which we put them into the pool are not the same.

Dr. Matthai.—The price at which the pool buys the surplus inferior kerosene from the contributing companies is the same practically as the price for superior oil.

Mr. Gray.—Slightly below.

Mr. Mathias.—Slightly below what?

Mr. Gray.—Slightly below superior oil.

President.—You will have three categories, viz., prices realised for the actual inferior oil, then the surplus inferior oil and then the superior oil. Is that right?

Mr. Gray.—Yes. The figures in my statement were based on actual selling prices, not the prices which the contributors received from the pool because the pool broke down owing to the rate war.

President.—The pool had broken down in so far as the Royal Dutch was concerned, and not as regards yourselves.

Mr. Gray.—To make this clear would require a rather long explanation of the pool which you said this morning you did not want me to go into.

President.—I am coming to that presently. What I want is separate prices for different classes. Whether there are two or three I do not know. You can give us for the whole of 1927 and for the first few months of 1928. I think in the earlier statements you have given us prices for the latter half of 1926, so that will give us figures for just about two years.

Mr. Gray.—Yes.

Mr. Mathias.—Do you still pay Rs. 3-6-0 for inferior kerosene to the contributing companies?

Mr. Gray.—It is contributed at that rate by us.

Mr. Mathias.—The British Burma Petroleum Company for instance do they get this price?

Mr. Gray.—For a certain proportion.

Mr. Mathias.—Do you still pay them Rs. 3-6-0 regardless of the price at which you sell?

Mr. Gray.—Less the charges for transport, etc.

Mr. Mathias.—You say that the pool has broken down. It has not broken down to the extent that still the contributing companies get Rs. 3-6-0.

Mr. Gray.—They are getting less than Rs. 3-6-0.

Dr. Matthai.—With regard to the maximum price, before the rate war began, did you offer the contributing companies anything less than Rs. 3-6-0? You call it a maximum price. I don't understand that.

Mr. Gray.—When we say maximum price, it means that we, under this policy, put a certain amount of kerosene into the pool at a maximum price of Rs. 3-6-0. It means that we will not fix our price for that volume of inferior kerosene above Rs. 3-6-0.

Dr. Matthai.—Practically till the rate war, right through, the low priced oil always was paid for by the kerosene pool at Rs. 3-6-0.

Mr. Gray.—Yes.

Mr. Mathias.—Never less?

Mr. Gray.—No.

Mr. Mathias.—Although you call it a maximum price?

Mr. Gray.—Yes.

Mr. Compton.—This point has a particular bearing on what I have written to you. I should like to make it quite clear as to this average actual selling price at the moment because I have based the statement that I have put in on Mr. Gray's figures given in the first column of the Table. I understand it to be an over-all price of the total volume of kerosene.

President.—We shall deal with that later on. What I want to know is this. Is it the average price for the whole of India excluding Burma and Chittagong? Is that right?

Mr. Gray.—Yes.

President.—It would simplify matters in a way if you could give us prices *ex-main* ocean installations at the main ports.

Mr. Gray.—Do you mean selling prices? These figures that I have given you are worked back to *ex-main* ocean installations.

President.—They will include a certain amount of freight paid by you at various points.

Mr. Gray.—The freight has been deducted in arriving at these returns.

President.—Are these net returns after paying all the incidental charges?

Mr. Gray.—Net returns from Calcutta, Bombay, Madras and Karachi.

President.—But then there would be more difference in the prices obtained at the different ports. Take Bombay and Karachi. So far as you are concerned, the net prices that you would get in those ports would probably be less than what you would get in Calcutta, because the distances are greater for you and the same for them.

Mr. Gray.—The selling price is based on the *ex-main* ocean installation price *plus* freight and other marketing charges.

Mr. Mathias.—Where to?

Mr. Gray.—Up-country.

Mr. Mathias.—These prices do not really represent *ex-main* ocean installation prices, do they?

Mr. Gray.—These are the gross prices received up-country with the marketing charges and freight deducted and brought back to *ex-main* ocean installations.

President.—For all ports?

Mr. Gray.—Yes.

Mr. Mathias.—Are they weighted averages?

Mr. Gray.—They are total gross proceeds divided by the total sales.

President.—Did you exclude Burma and Chittagong areas?

Mr. Gray.—Yes.

President.—In those areas who supplies kerosene and petrol?

Mr. Gray.—The indigenous companies—the Burmah Oil Company and the Indo-Burma Petroleum Company.

President.—Could you give us how much is sold in those areas and at what rates?

Mr. Gray.—I could find them out for you; I have not got them here.

President.—Could you send us those figures?

Mr. Gray.—Yes.

President.—Apparently the rates for those areas would be higher than those for other parts of India.

Mr. Gray.—Burma has not been affected by the rate war.

Dr. Matthai.—Has Chittagong been affected?

Mr. Gray.—Yes.

Dr. Matthai.—Has it been affected to the same extent as Calcutta?

Mr. Gray.—Not to the same extent as Calcutta.

President.—There I take it that the prices realised would be very nearly world parity prices as given by you.

Mr. Gray.—Do you mean in Burma and Chittagong?

President.—Yes.

Mr. Gray.—They would be somewhere near Gulf port prices.

President.—Obviously we in Burma are much worse off than people in India.

Mr. Gray.—You are supporting a home industry.

Superior and inferior Kerosene.

President.—Please explain to me briefly the difference between the two kinds of oil. Is there any real difference or is it merely a difference that the consumer thinks there is?

Mr. Gray.—There is a considerable difference.

President.—Please tell me what is the difference in quality in the first instance and then as regards the difference in price?

Mr. Gray.—There is a difference in colour, in smell and in flash point.

President.—How is the difference described in the market? Supposing a man wants inferior oil, how will he ask for it?

Mr. Gray.—He will go by the brand "Victoria" or any other inferior brand.

President.—How is the difference determined?

Mr. Gray.—It is described as white, red or yellow oil.

President.—We have seen in other cases that there is no difference really except in what the consumer imagines.

Mr. Gray.—If you burn the Victoria brand oil you will very soon come to know the difference.

President.—How is it described in the trade apart from names? In the case of petrol, you call it aviation petrol. In the same way how is inferior kerosene described?

Mr. Gray.—It is described by the fire test.

Mr. Mathias.—Is it described in the market as second rate kerosene?

Mr. Gray.—It is simply referred to by name. That is all that the Indian consumer knows about.

President.—It simply goes by name.

Mr. Gray.—Kerosene is usually described by colour such as Standard White, etc.

President.—Standard White is the best or what?

Mr. Gray.—I do not know. It does not mean the Standard Oil Company's oil. It is only a standard colour.

President.—You formerly maintained a difference of about Re. 1-6-0 in the average price. Of course, some of the difference in price may be due merely to the difference in quality; but some may be due also to these other factors. You keep such a difference in the prices of the two kinds of kerosene that one does not begin to get substituted for the other.

Mr. Gray.—That influence is also at work partly.

President.—What I want to know is this. If the question of substitution generally arose, at what difference in price would it occur?

Dr. Matthai.—If it were simply a difference in quality?

President.—That is really a benefit to the consumer.

Mr. Gray.—It is very difficult to judge; there is no other kerosene of the quality of our Victoria oil, which is manufactured. In Java, they have a yellow oil and I think the difference there is 2d.

President.—Is it 2d. a gallon?

Mr. Gray.—2d. per unit.

President.—That is not much of a difference.

Mr. Gray.—No.

Mr. Mathias.—The class of oil which you call inferior oil here is generally speaking not manufactured at all elsewhere.

Mr. Gray.—No.

Mr. Mathias.—What is here made into inferior kerosene goes into fuel oil or gas oil.

Mr. Gray.—Fuel oil mostly.

President.—Why do you keep such a big difference?

Mr. Gray.—Because we want to give as much relief as possible to the poor consumer and make the better circumstanced consumer pay something towards his benefit.

President.—But in times of stress, one would look after one's self first.

Mr. Gray.—We have not yet done so. It is a matter which I believe is under consideration.

President.—I understand that before the difference between your oil and the Standard Oil Company's oil was about 5 annas.

Mr. Gray.—Between our Victoria Oil and the Standard Oil Company's oil?

President.—Yes.

Mr. Gray.—By 'before' what do you mean?

President.—Some years ago.

Mr. Guthrie.—It was so in 1912.

Mr. Gray.—I am afraid I cannot confirm that.

Mr. Mathias.—How much below the superior oil would it be?

Mr. Gray.—Re. 1-6-0.

Mr. Mathias.—At that price, it would be practically impossible for any other company outside India to land this oil in India even if they wished to do so.

Mr. Gray.—I should think so.

Mr. Mathias.—Does that perhaps play any part in fixing the price, the possibility of having any competition?

Mr. Gray.—I don't think that there is very much danger of competition in inferior kerosene.

Mr. Mathias.—Even if you put up the price of inferior kerosene.

Mr. Gray.—They would buy then superior kerosene.

Mr. Mathias.—There must be some price at which it will not be profitable for other companies outside India to import inferior kerosene.

Mr. Gray.—Yes.

Mr. Mathias.—Is that approximately the rate which you will fix?

Mr. Gray.—There are no quotations for inferior kerosene outside India.

Mr. Mathias.—Is that a factor which you take into account in determining the price?

President.—What is it that prevents other people from making inferior oil?

Mr. Gray.—There is no demand for it outside India.

Mr. Mathias.—May we take it that it is so inferior that it won't find a market outside India?

Mr. Gray.—Not as a burning oil.

Mr. Mathias.—Am I right in thinking that this inferior oil will not burn in lamps and that it is a smoky oil which is used as a substitute for *til* and other vegetable oils?

Mr. Gray.—Yes.

Dr. Matthai.—There is a difference of 4 annas mentioned in one of your notes between imported superior and imported inferior. If it were simply a question of the difference in quality between your superior and your inferior, might we say that four annas was the difference which would be represented in quality, that is to say if the difference exceeded 4 annas then to that extent there would be no danger of substitution? But if the inferior stood in the Indian market at 4 annas below superior, quality for quality it is the same price.

Mr. Gray.—We have to take into consideration the needs of the consumer.

Dr. Matthai.—On what do you base this difference of four annas between the superior and inferior oil?

Mr. Gray.—In Java and elsewhere here is a differential varying from 2d. to 6d. and we took the mean figure.

Dr. Matthai.—Supposing inferior oil were produced in some of those countries that export to India, this four annas would be the difference in the f.o.b. cost between the two kinds of oil. They have to pay the same freight, the

same duty, etc. Therefore when it comes to this end, the difference between the imported superior and the imported inferior is really the difference in the f.o.b. cost between superior and inferior oil. Am I right?

Mr. Gray.—Yes.

Mr. Mathias.—Is the price of fuel oil very much lower than the price of kerosene? Could you give us any information on that point?

Mr. Gray.—Do you mean the American price?

Mr. Mathias.—Yes.

Mr. Tait.—2 cents, a gallon or about an anna.

Mr. Mathias.—Then it is really a very much more profitable business to distil and sell inferior kerosene than to sell this fuel oil?

Mr. Gray.—Yes.

Mr. Mathias.—It may be a great benefit to the consumer to sell at this rate but it does not mean that you do not make any profit out of it. Obviously these figures that you have given now indicate that more profit can be made by making inferior kerosene and therefore it would be better to manufacture inferior kerosene and extend the market for inferior kerosene as much as possible. What is the local price of fuel oil?

Mr. Gray.—There is very little market for it; we can take it as 3 to 4 annas a gallon.

Mr. Mathias.—Actually what goes into the fuel oil in America is practically sold as inferior kerosene in India?

Mr. Gray.—I would not say that.

Mr. Mathias.—Not all of it, but the greater bulk of it?

Mr. Gray.—I would not like to say anything about that.

Mr. Mathias.—If the statement was put to you, you would not contradict it, would you?

Mr. Gray.—I would not contradict nor would I confirm it.

Benefit to the consumer.

President.—What is the exact gain to the consumer? Obviously the difference between the two oils is not to the benefit of the consumer. You don't suggest, do you, that this difference of Rs. 1-6-0 between the two is entirely given away to the consumer? How much do you think you are actually giving away to the consumer, apart from any other consideration?

Mr. Gray.—We are making the consumer of the higher class pay for the benefit of the consumer of the lower grade.

President.—The Company has claimed that it has benefitted the poorer consumer. I have read it in one of the speeches of your Chairman that he gave away 22 million pounds. But it is hardly borne out by facts. What is it that the consumer gets as a present from the Company? He gets a present from the consumer of the higher grade of kerosene, but what is the contribution of the Company towards that? You make the consumer of superior quality of kerosene pay more than it is worth. It is that consumer really whom the poorer consumer has to thank. The companies have claimed that by this pool business 195,000 tons of kerosene that they put into the market at Re. 1 below the price of superior kerosene is a gift to the consumer from the companies. I would like you to say whether that is so.

Mr. Gray.—It comes in this way that if the indigenous companies did not exist the Indian consumer would have to pay the price at which the foreign importers imported the oil. I think that was the basis of the speech of the Chairman.

President.—I think not. He said this is what the consumer has saved.

Mr. Gray.—I imagine he worked out what the consumer would have to pay for imported oil and deducted what he actually did pay under the price arranged by the pool and multiplied it by the number of units sold and arrived at 22 million pounds.

President.—That is the difference between the world parity price of the superior oil and the price at which he gets the inferior oil?

Mr. Gray.—In addition to that there is the 195,000 tons which is put in at a specially low rate.

President.—Yes, but you recover it from the other consumer. What I want to know is, what is the contribution that the industry makes from its pocket to the consumer?

Mr. Gray.—The industry puts kerosene into the pool at a lower rate than the imported rate. Without the kerosene pool it could not avoid selling at the same rate as the imported kerosene.

President.—But the average will come down for all oil.

Mr. Gray.—No. It will go up.

President.—You get for this 195,000 tons a little more but for the remainder you would get less than that you are getting now.

Mr. Gray.—The prices are so fixed that the return to the pool balances what it pays to its contributors. For six months prices are arranged; if there is any excess it is carried into the suspense account and that balance is taken into consideration in fixing the price for the next six months. As it happens when the pool came to an end on 31st December last year, it ended with a debit balance. So that the pool does not make any profit; the contributors make a profit.

Mr. Mathias.—The companies stand to gain by the reduction in the price of inferior kerosene so far as the point of substitution of vegetable oil by kerosene is reduced. Thus the consumption of inferior kerosene stands at the maximum limit. That would be one of the objects in charging that price. Isn't that correct?

Dr. Matthai.—There is one point I want to be clear about. There is this difference in your selling price to the consumer between the superior and inferior oil as a result of the pool. Is that difference really to the benefit of the consumer or does it simply go into the pocket of the middleman? What I am trying to get at is this. This is the kind of oil which is consumed by the poorest man. Take the case of the agricultural labourer who buys a pice worth of kerosene from the bazar. The pice is the lowest monetary unit which he can employ: he buys a certain quantity. If it was white kerosene instead of red kerosene practically he would be paying the same price. It may come to this that from your point of view the middleman—the dealer who deals in this inferior kerosene—is able to make a bigger profit than he would from the white kerosene, but the consumer pays practically the same price . . .

Mr. Gray.—I don't think you are right in saying that the consumer buys a pice worth of kerosene. He buys it by the bottle. Superior oil is not sold in bottles.

Dr. Matthai.—Assuming that it is sold in bottles it is really the dealer who gets the benefit. As between the price of superior and inferior kerosene per bottle can you give us some information as to the difference?

Mr. Tait.—If there was no inferior kerosene a certain percentage of consumers would use vegetable oil; they would not use kerosene.

Dr. Matthai.—To the extent that this inferior kerosene has to be disposed of, to that extent you are putting it into his hands. The fact that you are able to enforce this maximum price policy gives you a hold over the dealers. What I mean is this. You can tell the dealers "this inferior kerosene on which you are making bigger profits we are not going to give you unless you take this white kerosene also" and in this way you are able to push the sale of the superior kerosene.

Mr. Gray.—It is probably true that a certain amount of pressure can be brought to bear on the dealer to sell a certain quantity of white kerosene before he gets the cheaper stuff but the poorest consumer class will not buy this superior oil.

Dr. Matthai.—You will admit, will you not, that you as producer of white kerosene have an advantage over the importer because along with your white kerosene you also put this inferior kerosene into the market?

Mr. Gray.—Yes.

Mr. Mathias.—Is there any definite ratio between the price of superior and inferior oil?

Mr. Gray.—There is usually this difference of Re. 1-6-0.

Mr. Mathias.—That is always the difference between the pool prices?

Mr. Gray.—It has been variable.

President.—Supposing you were to reduce the prices, at what point would you take the price of the inferior kerosene. How much can you now recover from the poor consumer by putting up the price of the inferior?

Mr. Gray.—We have got to find that out by experiment.

Mr. Mathias.—You have had some experience during the war when you attempted to maintain your maximum price policy, did you notice at that time any variation in the demand for inferior kerosene oil?

Mr. Gray.—I cannot say without looking up the records.

Mr. Mathias.—Would you mind looking up the records and letting us know?

Mr. Gray.—I will let you have the information.

Mr. Tait.—If you decrease the difference in the price between the superior and the inferior oil a certain section of the inferior consumer would turn their attention to the superior grade.

Mr. Mathias.—Perhaps the figures would show how extensive that section is.

Mr. Gray.—It can only be found by experiment.

President.—These figures would not enable you to find out how much the consumer benefits?

Mr. Tait.—My impression has always been that the pool put in this 195,000 tons at a specially low price of Rs. 2-14-0 and the balance of the oil they put in at an equivalent* of the American price landed in India. The average of these two volumes gives a price which is below the price the equivalent of the total brought in from America and that difference between the average price of the indigenous pool oil and the price fixed for the oil if we brought the oil from America is the saving that the Indian consumer gets from the pool and that for a period of years on an aggregate comes to this 22 millions.

Mr. Mathias.—The statement really means this that the existence of the indigenous oil industry enables the user of inferior kerosene to get his kerosene cheaper than he would if there was no Indian industry, and it also enables a class of consumer which at one time used vegetable oil to use kerosene, but it does not necessarily mean that the profits of the company has decreased or there has been any sort of gratuitous distribution from the company's profits.

Mr. Tait.—The amount of the demand which has been transferred from the vegetable oil (inaudible).

President.—There is more than that. No inferior oil can be supplied from outside. If no inferior oil can be imported from outside then the average price to the consumer will be higher than it is now.

Mr. Tait.—The fact that no inferior oil has ever been imported from outside is proof in itself that there would not be

Mr. Mathias.—I have here a statement (answer to questions 1 and 4 of the Commerce Department questionnaire) that "The 574,210 units of kerosene, though imported to meet the requirements of inferior, were actually of superior quality and a premium of 2 annas over the regular inferior price was paid". I think some inferior oil was imported from the Dutch East Indies?

* This is not strictly accurate. The price at which indigenous kerosene has been put into the pool has been below the American price landed in India.

Mr. Gray.—Yes. There was a certain volume of oil brought from the Dutch East Indies.

Mr. Mathias.—Then I imagine if there was no indigenous inferior kerosene the Dutch East Indies might find it more profitable to make this inferior kerosene and they might find it advantageous to extend their market for this class of oil rather than for superior kerosene.

President.—It may also be argued that you make such profits out of the inferior oil that you do not care to divert your attention to other products.

Dr. Matthai.—I suppose if there was a bigger industrial development in India and you had a bigger market for fuel oil then you might direct your attention to fuel oil.

Mr. Gray.—It has not been our policy so far.

President.—Supposing you left out the consumer, do you think that you can make more money by converting your inferior to superior oil?

Mr. Mathias.—Would it be possible to obtain very much superior oil from the oil out of which you manufacture your inferior oil?

Mr. Gray.—Yes.

Mr. Mathias.—Would it be a very costly process?

Mr. Gray.—No.

President.—But there is a very big difference in price. Supposing it was not really worth while having two qualities of oil in the country and supposing it was thought necessary that you should confine yourselves to one quality, do you think that then you would be making more money than you are doing now? In order that we may understand that there is a real benefit to the consumer, we must see whether there are other ways in which you can make more money instead of giving part of your production as inferior kerosene.

Mr. Gray.—It is very hard to give an answer to that question. The demand for inferior and superior oil are entirely separate.

Mr. Mathias.—The cost of turning your inferior kerosene into superior kerosene taking into account the recovery will probably bring up the cost of the superior considerably.

Mr. Tait.—You could not do so with all, but only with some percentage.

Mr. Mathias.—The cost of producing that might be considerable.

Mr. Tait.—Not necessarily. As far as I can understand the excess of inferior oil over this 195,000 tons would be very readily treated to make superior oil.

Mr. Mathias.—But you said just now that you could manufacture only a certain portion of that.

Mr. Gray.—You could treat the whole of the excess of this 195,000 tons.

Mr. Mathias.—Out of that you can only get a proportion.

Mr. Tait.—You would get 100 per cent. You would undoubtedly suffer a little loss in the residue.

Mr. Mathias.—The cost of turning 100 per cent. inferior to superior would be very much.

Mr. Gray.—Not necessarily.

Mr. Mathias.—Why don't you do so?

Mr. Gray.—So that we can provide the pool demand for the inferior kerosene at a cheap price.

President.—Then you would come into very much stronger competition with the foreign companies. If you gave up your market for the inferior kerosene and started manufacturing more superior, then of course the price war that is now going on might be much worse assuming that there was a demand.

Dr. Matthai.—The inferior kerosene market is completely a preserved market for you.

Mr. Gray.—Yes, for the indigenous producer.

Mr. Mathias.—The price of that has not been affected by the price war.

Mr. Tait.—It is.

Mr. Mathias.—Why so?

Mr. Tait.—We just have to follow the price fixed by the pool and the inferior kerosene price has come down in proportion.

Mr. Mathias.—Why?

Mr. Gray.—If it had not come down, it would have been very much higher than the price for superior.

President.—Thus to-day there will be a difference of Re. 1-2-0.

Mr. Gray.—Re. 1-6-0 in some areas.

Mr. Mathias.—I think you said you were considering the question of price.

Mr. Gray.—At home they are considering the question of reducing the differential between the two.

President.—I find from the answers to the Government of India questionnaire that in the first half of 1927 as compared with the second half of 1926, there was a very large increase in the importation of kerosene oil, both superior and inferior. What was that due to? I find that the other figures are more less stationary.

	Units.
Imported superior from July to December, 1926 .	464,318
Imported superior from January to June, 1927 .	796,130
Imported inferior from July to December, 1926 .	74,680
Imported inferior from January to June, 1927 .	574,210

Mr. Gray.—Probably it is a question of filling up stocks. I don't think there is any very great difference in the demand.

President.—Is that an unusual feature at that particular period?

Mr. Tait.—There is no uniformity about the imports for any particular period. You could only compare over a period of a year or more. In one month you may get 100 tons of oil imported and in another year in that month you may not get anything. It has no significance whatever.

Dr. Matthai.—What the President meant to ask was this. You are comparing the second half year of 1926 with the first half year of 1927. Generally as between the first half of a year and the second half of a year, is there a difference in the proportion of imports?

Mr. Gray.—No, I don't think so.

Mr. Tait.—In certain seasons of the year there are big sales. When the days are long, less oil is consumed, but when days are short, more oil is used.

Mr. Mathias.—The inferior imported kerosene, is it a white oil?

Mr. Tait.—Yes, it is a very poor oil which smokes very very badly, but it is white in colour.

Mr. Mathias.—In appearance it is not distinguishable.

Mr. Tait.—Yes, it is distinguishable to some extent the colour being opaque.

Mr. Mathias.—The sale of this inferior oil would not go to the same classes of people who use the inferior oil produced in India, would it?

Mr. Tait.—I don't know. Personally I have had no experience of that oil. We don't make it. It is frequently mixed with the indigenous inferior oil. There is no chance of adulterating that with the superior oil.

Mr. Mathias.—Do you mix it with inferior in the pool? You don't sell it as it comes into the country at all.

Mr. Gray.—It is sold.

Mr. Mathias.—In what proportion?

Mr. Gray.—Less than one per cent.

Mr. Mathias.—Practically all is mixed with the inferior Indian oil.

Mr. Gray.—Yes.

The kerosene pool.

President.—As regards its contribution to the pool by the Royal Dutch Shell Group, I take it that the Burma Oil Company acts as a sort of importer really speaking. What happens? Who gives the indents for the pool?

Mr. Gray.—The indigenous oil companies state how much they are going to contribute and the marketing organisation determines how much they are going to require and then the Asiatic Petroleum Company is invited to supply the rest.

President.—What do you mean by "marketing organisation"?

Mr. Gray.—That is the distributing side of the kerosene pool.

Mr. Mathias.—Is that the Burmah Shell Oil Storage and Distributing Company of India, Limited?

Mr. Gray.—Yes.

Mr. Mathias.—It used to be Shaw Wallace.

Mr. Gray.—Not entirely.

President.—That is now a separate company.

Mr. Gray.—Yes.

President.—This separate company arranges with the indigenous companies and the Asiatic Petroleum Company to purchase certain quantities of oil and the rates are fixed by this new company at which the indigenous companies are to contribute.

Mr. Gray.—As regards kerosene pool that was so, but I have not seen the final agreements of the new company.

President.—I want only to be able to understand this organisation and how it operates. It is really the same people.

Mr. Gray.—Under the kerosene pool, the rates for imported oil were fixed on the basis of American gulf port *plus* the freights *plus* the other charges which we discussed this morning. That was the price for the imported superior oil and the imported inferior was 4 annas less than that. On the other side from the indigenous companies there was 195,000 tons at Rs. 2-14-0 *plus* excise and the rest was put in at a price not above the imported price.

Dr. Matthai.—Imported superior price.

Mr. Gray.—Both, so that the indigenous price must be below the imported price.

Dr. Matthai.—Owing to the 195,000 tons.

Mr. Gray.—Yes, and owing to the fact that the other price were not higher than the imported price. They are usually lower.

Dr. Matthai.—When the pool buys indigenous superior from the contributing companies, you say they fix a price which is not above world parity, but it is generally below.

Mr. Gray.—Yes.

Dr. Matthai.—How is that margin fixed? Why do you not pay the indigenous companies the world parity prices for their superior oil and for the surplus inferior? On what basis do you fix the margin between the price that you pay the importer and the price you pay to the indigenous companies?

Mr. Gray.—There is no basis. It is only an arbitrary figure.

Mr. Mathias.—Is it in agreement between you and the other companies?

Mr. Gray.—Yes, in consultation with the other people.

Mr. Mathias.—The final word rests with the Burma Oil Company.

Mr. Gray.—With the indigenous companies including the Burma Oil Company as the principal company.

Mr. Mathias.—Really in the matter of fixing the price of surplus inferior and of superior indigenous oil, the Burma Oil Company has a large voice subject to its maximum.

Mr. Gray.—Yes, and subject to agreement.

Dr. Matthai.—It is simply a matter of negotiation and cannot be explained with reference to principles.

Mr. Gray.—I am afraid it cannot.

President.—I take it that so far as the pool is concerned, it is really an importing concern.

Mr. Gray.—No.

President.—The Royal Dutch Shell Group which is the principal importer is both a producer and a commission agent. It gets 10 per cent. on the turnover besides whatever profit it may make on its manufacture. First of all it must make a profit on the f.o.b. price whether the oil comes from Borneo or any other place and then on top of that it gets 10 per cent. on the turnover.

Mr. Gray.—Yes.

President.—Do you consider that a reasonable arrangement from the point of view of the consumer?

Mr. Gray.—I don't think 10 per cent. is unreasonable.

President.—It is 10 per cent. *plus* the normal profits. It does not do anything at all. The marketing is done by you.

Mr. Gray.—It has its own marketing organisation here.

President.—So far as this part of the business is concerned, there are no marketing charges at all. It simply ships oil from a port and then it is handed over to you or to the pool.

Mr. Gray.—It has a marketing organisation which markets oil on account of the pool.

President.—That is true. That is a later stage which will be covered.

Mr. Gray.—It makes no profit out of marketing.

President.—There is no expenditure incurred between the refinery and the Indian port.

Mr. Gray.—There is the freight.

President.—It gets its freight paid.

Mr. Tait.—It gets its 10 per cent. on what it imports.

Mr. Gray.—I don't think 10 per cent. is excessive.

President.—It does strike me this way that it is both a manufacturer and a commission agent. That is what it really comes to.

Mr. Mathias.—You receive the oil at the port.

Mr. Gray.—The pool receives at the port.

Mr. Mathias.—From the tanker.

Mr. Gray.—It pays for its kerosene oil at the *ex-main* ocean installation rate. Rates are fixed *ex-main* ocean installation.

Mr. Mathias.—Whose main installation?

Mr. Gray.—Either ours or the Asiatic Petroleum Company. It has its own installation.

Mr. Mathias.—Does this 10 per cent. cover the installation charges?

Mr. Gray.—No. It is an extra item.

Mr. Mathias.—So that really that 10 per cent. is not for any service rendered. It is for service which might be rendered if another oil company took to importing, am I right? The marketing organisation must be paid.

Mr. Gray.—It is not paid to the Royal Dutch. The only payment they get is as contributors to the pool.

Mr. Mathias.—Then what about the marketing organisation? Is not that paid for?

Mr. Gray.—There is a pool suspense account and whatever is paid into the pool and whatever is paid out by the pool is balanced by what it comes into the pool.

Mr. Mathias.—Is marketing charged against the pool?

Mr. Gray.—They recover their expenses in the selling price.

Mr. Mathias.—It is not charged against the pool.

Mr. Gray.—No.

Mr. Mathias.—They recover their expenditure in their selling price, so that that is a stage later. But when you consider the oil delivered at the port *ex* main ocean installation actually the Royal Dutch Shell Group for this 10 per cent. rendered no services at all. This 10 per cent. really represents the profit which might be obtained by another company if it imported kerosene.

Mr. Gray.—Supposing a totally different person received the oil from the Asiatic Petroleum Company and marketed it, then 10 per cent. would not be unreasonable.

Mr. Mathias.—Don't they hand it over to the pool?

Mr. Tait.—This 10 per cent. represents the profit of the Royal Dutch in selling this volume of oil to the pool. It is a profit on the sale of oil. They may produce it or they may buy it elsewhere.

Mr. Mathias.—It is a definite profit which is not for any service rendered.

Mr. Tait.—That is so.

President.—If you don't allow them that, you would also get a lower price. You could not refuse them this 10 per cent. and at the same time charge 10 per cent. to the pool.

Mr. Tait.—I take it that if the pool bought from somebody other than the Royal Dutch, they would have to pay 10 per cent. or even more on the f.o.b. cost. Obviously any trader has to have his profit on it. Our friends The Standard Oil Company would probably explain what margin of profit they estimate on their oil which they buy in America and sell in India.

President.—We will ask them when they come to give evidence before us.

Dr. Matthai.—The Royal Dutch Shell group both produce and import and this 10 per cent. is for service rendered as imported.

Mr. Cameron.—It is equivalent to a buying commission.

President.—I just want to make one general comparison between your prices and the American prices. We will take the Gulf port price—the f.o.b. price—as 5.75 cents as you have got it in this note. At this price of 5.75 cents per gallon, the American producer makes a reasonable profit on his investment. After that of course he disappears from the business. So far as he is concerned, he only gets that price. Assuming that you were able to produce oil at the same price, you would have already earned your profit on the production in the same way as the American producer. Then on top of that you get, excluding the import duty, about Rs. 3 per unit f.o.b. refinery in your case, is that correct? Taking the same gallon as the American gallon in this case, the f.o.b. Gulf port price is Rs. 1.9-3 and with all the charges excluding the import duty of Re. 0.4-6, the total comes to Re. 1.13-0, which is an extra margin that you get over your fair selling price assuming that your costs are about the same as American costs. I am now talking of Rangoon and comparing it with the Gulf port. There is a margin of Re. 1.13-0, so far as Rangoon is concerned and you have got a natural protection there to that extent. Of course your costs may be higher but I am not going into them.

Mr. Gray.—We have to transport our oil.

President.—They have also got to market their oil. That I leave out of account at present. I am talking of f.o.b. cost and in that you have got a margin of Re. 1.13-0, over the American producer.

Mr. Gray.—I don't quite follow how you arrived at Rs. 1.13-0.

President.—You take Rs. 4.10-3, and then deduct the duty of Re. 1.4-0, from that. You get Rs. 3.6-3. If you deduct the f.o.b. Gulf port price of Re. 1.9-3 from that, you will get Re. 1.13-0. Assuming that your costs

and the fair selling price are the same as theirs, you get the advantage of Re. 1-13-0 in Rangoon.

Mr. Gray.—Yes.

President.—What I wish to know is what happens at the principal ports, not in the mufassal. For that reason we should have to have the freight that you pay from here to Bombay, Karachi and Calcutta. Taking these three ports, we will compare your freight with the freight that the American producer has got to pay. We want to ascertain what amount of protection you are able to get at the ports. Would you be able to give us those figures? What I really want is the c.i.f. price.

Mr. Tait.—I think we have given c.i.f. costs in one of our statements.

President.—You have given us general c.i.f. prices and *ex* main ocean installation prices. We must make the figures comparable. Either you give us *ex* main installation price at the ports or give us c.i.f. port price; otherwise the two figures are not comparable.

Dr. Matthai.—I think it would be convenient to take in both cases *ex* main installation prices.

Mr. Tait.—You want c.i.f. prices, don't you?

President.—What we really want is to make the two figures comparable. If you prefer to give us c.i.f. prices, we shall then deduct freight and other charges; or you can give us main installation prices at the principal ports in both cases.

Mr. Tait.—Any c.i.f. prices that we may give obviously must include the cost of production.

President.—I know, but that is another matter. We have not got your cost of production. When we get your cost of production we will have to apply a different method. I am assuming now that the Burmah Oil Company is able to produce it at about the same price as the American producer.

M. Gray.—You require c.i.f. prices on the basis of Re. 1-13-0 at Rangoon?

President.—You might give us these charges. You determine your prices merely by world parity prices so far as other ports are concerned. As we have not got your cost of production for the sake of argument we shall assume that your cost is the same as that of the American producer. Re. 1-9-3 is his f.o.b. price. Then, we want to see how you compare at the various ports.

Mr. Tait.—What you want is charges from Rangoon to other ports.

Mr. Mathias.—In place of your answer to question 8 (b), put by the Commerce Department of the Government of India, we want you to give us your freight from Rangoon to Bombay, Karachi and Calcutta and also the American charges, freight, etc.

Mr. Tait.—These are figures which the pool must provide.

Mr. Gray.—We will give you the information.

President.—So far as your transportation is concerned, you have got your own tankers, have you not?

Mr. Gray.—Yes.

President.—For all the Indian ports?

Mr. Gray.—Yes.

President.—How then is the freight determined? Though freights will be determined by world rates, here you have no other company doing this business. How is it done? The point is this. You may be charging them a lower rate; it is just possible. When we are comparing your freight with the American freight, we must have some idea that they are comparable. Can you tell us how they are fixed? Would they correspond to world freight rates?

Mr. Gray.—For accounts we work them out on the basis of world freights and see whether we are making profit or loss.

Mr. Mathias.—You charge freights I take it to the constituent companies.

Mr. Gray.—Yes.

Mr. Mathias.—Could you give us those figures?

Mr. Gray.—Yes.

President.—What I want to be quite clear about is this: would you fix them with reference to world rates?

Mr. Gray.—Yes.

President.—You think that they are fixed in that way.

Mr. Gray.—Yes.

President.—Mr. Guthrie, I suppose you have also got your own tankers?

Mr. Guthrie.—Yes.

President.—Your freight rates also would be world freight rates.

Mr. Guthrie.—Yes.

Dr. Matthai.—Are your supplies from Russia coming in your own tankers.

Mr. Guthrie.—Yes.

Mr. Gray.—Freights taken to arrive at these prices are not the rates quoted in the market recently, but the lowest rates which give profit to the shipping companies. The contributors to the pool have always gone on the understanding that in consideration of their making regular supplies they should not be expected to run the tankers at a loss.

President.—Supposing it had no connection with world freights; that in those parts of the world there is very much competition and you don't get shipping, are those rates really economic rates? That is to say do you get a fair return on your investment on your tankers, that is all I want. We will assume that the rate is a reasonable return on the investment.

Mr. Gray.—Yes.

President.—In paragraph 14 of your general representation it is stated that "At the opening of this dispute kerosene prices in India were Rs. 5-12-0 for superior and Rs. 4-6-0 for inferior qualities per 8 gallons in bulk ex the main ocean installations". How was that figure of Rs. 5-12-0 derived? You start from the 23rd September, but before that we were told it was Rs. 5-12-0. If we were to deduct Rs. 3-1-0 from Rs. 5-12-0 we get the f.o.b. gulf price.

Mr. Gray.—No. Rs. 5-12-0 and Rs. 4-6-0 were the selling prices not the price at which the oil was contributed to the pool.

President.—Have you sent us the gulf prices yet?

Mr. Gray.—No.

Mr. Tait.—We will bring them with us to-morrow.

President.—Probably the prices have remained more or less stationary. Do you think we would be right if we took the on charges beginning with freight as more or less fixed and added them to the gulf price for the last two years. They come up to Rs. 3-1-0.

Mr. Gray.—I think so.

President.—You get a price of Rs. 2-11-0 against Re. 1-9-3. What I want to know is this. There are these two prices of Rs. 5-12-0 and Rs. 4-6-0. Rs. 4-6-0 really speaking is just below the world parity price of the superior in February which was Rs. 4-10-0. It is only four annas below that.

Dr. Matthai.—This Rs. 5-12-0 was fixed in July 1927?

Mr. Gray.—Yes.

Dr. Matthai.—And you accept the assumption that between July 1927 and about December there was not a very considerable fall in f.o.b. prices?

Mr. Gray.—I cannot say.

Mr. Tait.—I can give you the gulf prices.

President.—Mr. Gray, I think you are liable to be misunderstood. People will think that you have taken Rs. 2-11-0 which is the difference between Rs. 5-12-0 and the on charges which represent the price of Rs. 2-11-0 at the

gulf ports and if you could give us some explanation we should be very glad. This price of Rs. 5.12-0 which is higher than the gulf price, why was it fixed at this level?

Mr. Gray.—I shall send the information later.

Mr. Mathias.—Could you give us the proportion of sales at the different ports of your kerosene say for the year 1927?

Mr. Gray.—Yes. You want for main ports—Bombay, Madras, Calcutta and Karachi?

Mr. Mathias.—You might give the amount of sales in Burma and Chittagong also.

Mr. Gray.—You want that information both for superior and inferior oil?

Mr. Mathias.—Yes. I take it the proportion will be the same for each contributor to the pool. You don't sell different proportions in different ports to different members, do you? Suppose you sell 20 per cent. in Bombay of kerosene the indigenous members proportion is the same, is it not?

Mr. Gray.—Yes. If it is a different proportion we would show that.

Mr. Mathias.—What about the Anglo-Dutch?

Mr. Gray.—I think it is approximately the same proportion.

President.—How do these different companies deliver the oil to you? Take the case of the Attock Oil Company, you must give them a higher price. Where do these indigenous companies deliver the oil to you? I take it the oil is delivered at any particular place this new company names. You have given us more or less a flat rate which the pool pays to the indigenous companies. But that flat rate must be with reference to some particular point. How do you calculate that? Each individual company does not produce oil at the same spot. There are different rates for different places. How do you adjust these?

Mr. Gray.—It is all worked back from ex main installation.

President.—Rangoon?

Mr. Gray.—No, India.

President.—Most of the oil companies are here. Where do these companies deliver the oil to you?

Mr. Gray.—The British Burma Petroleum Company deliver to our tankers.

President.—Indo-Burmah?

Mr. Gray.—They are not in the pool.

Mr. Mathias.—Take the case of the Attock Oil Company. They are not actually members of the pool.

Mr. Gray.—They are not at present. Attock has an economic area within which it can sell and when it goes out of that economic area it sells to the pool.

Mr. Mathias.—That is to say within an economic area they sell themselves; outside that area as well as for India generally they sell through your pool.

Mr. Gray.—Yes.

Dr. Matthai.—Their economic area is the Punjab and the North-West Frontier?

Mr. Gray.—Their economic area is the area which is more cheaply supplied from Pindi.

Dr. Matthai.—Is there a geographical limit to the area?

Mr. Cameron.—No. It varies according to our production.

President.—In the case of the companies which are in the pool what is handed over to the pool does that account for the whole of the production or is there any oil outside the pool?

Mr. Gray.—Only that which they sell within the economic area.

Mr. Mathias.—What is the economic area for Burma?

Mr. Gray.—There is no economic area.

Mr. Mathias.—Does the Assam Oil Company have any economic area?

Mr. Gray.—Yes.

Mr. Mathias.—They are contingent contributors to the pool?

Mr. Gray.—Yes.

Dr. Matthai.—The whole of their Assam sales would be their own; is that their economic area?

Mr. Gray.—Yes.

President.—As regards Indo-Burma, you follow what they do. You have also got two qualities of oil and you also go by the labels for the different qualities and the customers understand that a particular label represents a particular oil and that is sufficient for your purposes to keep your market. In the case of the pool it is practically the same oil sold under different labels. What I mean is this. You have got in the inferior also two classes, imported inferior and the indigenous inferior. These would be sold according to the labels. When they are selling their imported they will sell it along with your indigenous inferior.

Mr. Tait.—Yes, an equivalent quality at the same price.

President.—You do not claim it to be a better quality.

Mr. Tait.—We sometimes do.

President.—Could you give us the amount of Assam oil which is sold in the economic area for the year 1927?

Mr. Tait.—Yes.

President.—In every case I think you will have to give the quantity supplied by each company of each kind of oil for 1927 and for the few months of 1928. Unless we have those figures, it will be very difficult for us to see how they are affected.

At the bottom of paragraph 14, on page 4 of your joint letter, dated 15th December, 1927, you say :

“ Their contributions of kerosene for the period were at an average *ex* installation price of Rs. 4-11-4 per unit, or considerably below the world market ”.

What do you mean by that sentence?

Mr. Gray.—It means the average price received per unit by the contributors to the pool from the pool was Rs. 4-11-4.

President.—That is the average of Rs. 5-12-0 and Rs. 4-6-0.

Mr. Gray.—Rs. 5-12-0 and Rs. 4-6-0 are the selling prices.

President.—That is the average.

Mr. Gray.—That is the average at which oil comes into the pool.

President.—If we had the average realised price which the pool had received, then we can say this Rs. 4-11-4 is the average price which the pool paid to the companies.

Mr. Gray.—Yes.

Dr. Matthai.—This Rs. 5-12-0 is the price which the consumer paid to the pool for superior kerosene.

Mr. Gray.—Yes.

President.—But you have not given us the average that the consumer paid for the two in that. This is what the pool paid. We want to see what the consumer paid on an average.

Mr. Gray.—The average for inferior and superior is shown further on, where it is tabulated for each week.

President.—This is the postwar figure.

Mr. Gray.—Yes.

President.—We have not got it for pre-war.

Mr. Tait.—The second column in the statement on page 5 of your joint letter dated 15th December, 1927, shows the average realisable prices at pre-war rates.

President.—I would like to have a table worked out—I have not yet thought out the form of the table—so that you can see at a glance the gulf prices and the average realised prices. Prior to the war we might take the whole period.

Mr. Tait.—In this paragraph it is pointed out that the price realised on any one date would not be equivalent to the world price at that date. It might be more or it might be less.

President.—The point is that so far as the comparison as regards the rate per week is concerned, it is not a real comparison at all, because it takes three months to get the oil from the gulf port.

Mr. Tait.—Even supposing there is a big drop, we have to have a reserve till the lower priced oil arrives.

President.—In this case what we would have to take is this. Before the war we will take a period of six months. That is the way you do your pooling arrangement.

Mr. Tait.—A period of six months will not probably help you, because during that time there will probably be large stocks of high priced or low priced oil as the case may be.

President.—As regards the war period, I am not quite clear as to what figure to take to get the world parity. What do you suggest we should do as regards war period, because there have been very rapid cuts?

Dr. Matthai.—Supposing we took January to March, 1928, would not those three months' prices reflect the fall in world parity as well as the fall due war?

Mr. Tait.—No.

President.—Now coming to the three points mentioned in our terms of reference; the first point is to determine what prices for kerosene should be taken to be equivalent to world parity at Indian ports and the extent to which current prices in India are below that level. Now, what date do you think would fairly represent the gulf price which is contemplated by that paragraph.

Mr. Tait.—I should think you would have to take several months prior to the beginning of the war.

President.—That does not enable us to come to any conclusion as regards the future. The idea of this is we must ascertain what would be the world parity prices before we proceed any further. I am asking you what world parity prices should be taken to start with. As you have told us, to-day it has gone up by 1½ cents since you gave that figure.

Mr. Gary.—It would be very difficult to get it unless you enquire into particulars of every shipment when it is imported.

Mr. Mathias.—You say it takes three months for the shipment to arrive here. Supposing we take the gulf price on the 1st of April, what do you think of that?

President.—You must be getting more or less daily quotations.

Mr. Tait.—We are not interested really.

President.—Probably you would be getting them.

Mr. Gray.—I don't have anything to do with the arrangement. It is all done in London.

Mr. Mathias.—You have your pool prices cabled from London.

Mr. Gray.—All the contributing prices are arranged in London.

President.—What are we to do? Somebody must supply us with figures.

Dr. Matthai.—That is done once in six months.

Mr. Gray.—Yes.

President.—We must take some point and then determine the price.

Mr. Mathias.—If we determine the date, you can get us by cable the price if you have not got it in your office.

Mr. Gray.—Yes.

President.—I think you gave us one price to-day which you received two or three days ago. Haven't you received previous prices since the war started?

Mr. Gray.—They are all here (referring to Mr. Tait's file).

President.—When we get those prices, we may be able to fix a date or take an average.

Mr. Tait.—There is that point that pool's previous commitment will have to be included in any averaging of the prices to the seller.

President.—So far as the pool was concerned, I understood that the smaller companies were not affected at all up to 31st December.

Mr. Tait.—We were affected.

President.—I mean so far as the smaller companies were concerned.

Mr. Gray.—They were affected very much.

Mr. Compton.—The British Burma Petroleum Company were not affected

President.—I remember reading in one representation that they were not affected.

Dr. Matthai.—The prices fixed for July, 1927, continued up to the 3rd week of October, 1927. It was on the 22nd October, 1927, that the pool decided to give up prices which were fixed from July, 1927. The pool could have maintained the prices of July, 1927, till the end of December. The pool decided somewhere about 22nd October to drop those prices.

Mr. Cameron.—We get paid by the pool at the prices ruling in the succeeding months for our despatches.

Dr. Matthai.—This pool price, how long did it continue?

Mr. Cameron.—We get them paid in June; August prices we get paid in July.

Dr. Matthai.—August prices must be the pool price, because the settlement is made once in six months.

Mr. Cameron.—That is as far as the pool is concerned, but we are speaking of the smaller companies.

President.—As regards the British Burma Petroleum they were not affected up to the 31st December. As for the Indo Burma Petroleum Company they were affected from the 1st of September.

Mr. Mathias.—When was the first cut made?

Mr. Cameron.—23rd September.

Mr. Mathias.—How were you affected from the 1st?

Mr. Cameron.—We get paid at the rate current in the succeeding month, so we were affected from the 1st of September.

President.—That is as regards kerosene. As regards petrol I take it the position has not at all changed.

Mr. Gray.—No.

President.—As regards petrol you get practically world parity prices, is not that so, for the whole of the production.

Mr. Gray.—Approximately, yes.

President.—At all the ports.

Mr. Gray.—Yes.

President.—Could you also let us have the total sales of petrol for the same period?

Mr. Gray.—Yes.

Mr. Mathias.—You have no petrol pool in the same manner as you have a kerosene pool.

Mr. Gray.—There is no foreign importation of petrol.

Mr. Mathias.—The other companies market their own petrol following the price fixed by the Burmah Oil Company.

Mr. Gray.—Yes.

President.—I see from the import figures that there is no import of petrol at all.

Mr. Gray.—No.

President.—All these different tins that we see really they don't mean anything, whether it is shell, B.O.C. or I.B.P.

Mr. Tait.—The Indo Burma Petroleum Company has its own identity.

President.—Advertisements such as 'buy shell petrol' doesn't mean anything at all.

Mr. Tait.—Yes.

Mr. Mathias.—Does the difference lie in the smell?

Mr. Tait.—In the colour of the tin.

President.—Will you please give us figures for petrol?

Mr. Gray.—Yes.

President.—For each port separately?

Mr. Gray.—Yes.

President.—That would not give you the total sales. If you gave only the sales at the ports, would that account for the whole of your sales?

Mr. Gray.—Yes, excluding Burma and Chittagong.

Mr. Mathias.—How is the price fixed for petrol?

Mr. Gray.—At a price at which it does not attract anybody to compete with us.

Mr. Mathias.—That is the world parity price.

Mr. Gray.—It is not absolutely based on that. We don't want to encourage other people to come here and market their petrol.

Dr. Matthai.—Do your variations correspond to the variations in the world parity?

Mr. Gray.—Not absolutely.

Mr. Mathias.—I take it that as you supply the total amount of petrol consumed in India at present and as it takes three months for the petrol to come from America, it is always possible for you to fix prices slightly above the world parity.

Mr. Gray.—It may be sometimes above parity.

President.—Is it impossible to remove the grievance that the consumer in Burma does not get his petrol much cheaper than a man in London?

Mr. Tait.—One of our statements shows the heavy incidence of Government taxation.

President.—I don't think you can beat the British Government for taxation.

Mr. Gray.—The Rangoon price of petrol is three annas below the Calcutta price.

President.—I am not talking of the Calcutta price. I am talking of the London price, which is the same as the price current in Rangoon.

Mr. Gray.—Not if you take into account the excise duty of four annas.

Mr. Tait.—There is no import duty on petrol in England.

President.—So far as Burma is concerned, there is that feeling on the part of the public and it should be very easy for the Companies to remedy it.

Mr. Tait.—I have got an interesting statement here which shows that we pay as much as Rs. 0-10-8* (annas ten, pies eight) per tin of two gallons in the shape of taxes to Government—both Central and provincial. There is no question that the average man does not realise how much Government take out of that price. It will probably do some good if you can find a way out of that.

Dr. Matthai.—Does it include everything, even the income-tax?

Mr. Tait.—Yes.

President.—Royalty alone how much would it be?

Mr. Tait.—We pay eight annas per barrel of crude oil.

President.—Have you any idea as to how it works out?

Mr. Tait.—I have not worked it out.

President.—As regards the lubricating oil and other products, do you get the world parity prices?

Mr. Gray.—I don't think there is much connection between our prices and the world parity prices. We have to sell them in competition with other people.

Mr. Mathias.—You have the same pool.

Mr. Gray.—Not always.

Mr. Mathias.—In many cases, if anybody was going to supply the lubricating oil, you could simply cut off petrol.

Mr. Gray.—We can, but we don't do.

Mr. Mathias.—You have not done so far.

Mr. Gray.—No.

President.—So far as lubricating oil is concerned, you have got no controlling interest.

Mr. Gray.—No.

President.—Therefore you would sell more or less at competitive prices, that is world prices.

Mr. Gray.—Yes.

President.—As regards paraffin wax, the position is the same, is it not?

Mr. Gray.—That is practically all sold outside India and has to meet with foreign competition.

Dr. Matthai.—Do you mean that it is exported?

Mr. Gray.—Yes. Very little sold here.

President.—Does that go out as candles?

Mr. Gray.—Candles are sold in India.

Dr. Matthai.—Paraffin wax is the most valuable product outside petrol and kerosene, is it not?

Mr. Gray.—Yes.

Dr. Matthai.—As far as the Burma crude is concerned, you get more paraffin wax out of your crude relatively speaking than from American crude?

Mr. Gray.—Yes.

President.—That brings us now to the effect of the rate war on the financial position of the companies. We have not got figures as regards the costs of these two particular articles and we know nothing at all about the other products. Until you give us some indication as to how the position lies, do you think that we can give a correct representation to the Government of India? So far as your other products are concerned, supposing we have figures, as regards those we can say that they may be all right. But as regards these two, *viz.*, kerosene and petrol, I don't really see my way to

* Mr. Tait may, perhaps, be asked to confirm this figure. I do not think it is the figure which he gave.

coming to any conclusion as to how it is going to affect you unless of course we take the American Gulf port, f.o.b. price as your fair selling price. That as you know would give us a very much higher price. In that case, our finding may be that you are not affected or are not likely to be affected.

Mr. Gray.—We must be affected to some extent.

President.—In this way that your revenues may be decreased, that is all. Is that what the Government of India want to know? They can calculate just as well as we can, if that is the idea. You have given them these figures and they have simply got to total them and multiply your production by the difference in price.

Mr. Gray.—If we (the B.O.C.) give you our figures, we don't expect for a moment that they will prove that we need protection.

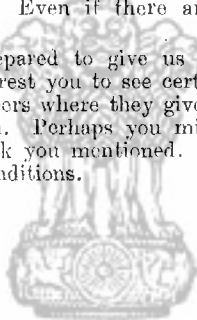
President.—They may establish one point, and that is this. You may not require it now, but you may require it later on; that is the position.

Mr. Gray.—I hope to be able to provide you with some figures.

President.—We should be very glad if you could. It would simplify matters very much. It is no use our saying, as I said yesterday, that by multiplication we have come to these results. It does not help anybody. If you realise the situation and give us the figures, we shall be very glad indeed. We have no time to go into them thoroughly; we shall take the figures as you give them more or less. This question of costs has been a matter of very great trouble in all our enquiries. It is impossible for us to examine the costs in the same way now. Even if there are some figures, they will be of great use to us.

Mr. Gray, as you are prepared to give us the costs of the Burmah Oil Company, perhaps it may interest you to see certain article which have appeared in some of the Bombay papers where they give certain figures as regards the value of the shares and so on. Perhaps you might deal with them. I think they were taken from the book you mentioned. But we would prefer to have your own account of the conditions.

Mr. Gray.—Yes.



सत्यमेव जयते

THE BURMAH OIL COMPANY LIMITED (SCOTLAND) AND OTHER OIL COMPANIES.

Continued on Thursday, the 26th April, 1928.

Mr. Gray.—I should like to inform you, Mr. President, that my directors have agreed to my supplying you with cost figures under guarantee of secrecy.

Pool organisation.

President.—We are very much obliged to you for your co-operation. I am glad that the directors have adopted the right attitude. I will now revert to this question of the pool. I am not quite clear as to what happens when the pool has got the necessary quantity of kerosene oil. These prices that you have given are, I understand, gross prices, that is the realized prices of the pool, are they not?

Mr. Gray.—They are the nett *ex*-installation prices.

President.—What I want to know is this. The pool pays a certain price, then you sell at a certain price. What is the nett amount that each company gets?

Mr. Gray.—It gets the price paid to it as contributor to the pool.

President.—There is a lot of marketing charges, for instance; who pays those charges?

Mr. Gray.—Ultimately the consumer pays them. They are added on to the *ex*-main installation price.

President.—What is the cost of distribution? Supposing they contribute each 150 gallons and you pay them at Rs. 5 per gallon. You have already paid them at Rs. 5 a gallon but you realize Rs. 4 a gallon; in that case they will have to refund about Re. 1 I suppose?

Mr. Gray.—It is finished so far as we are concerned when we receive the contributing price.

President.—I think you said you adjusted the accounts every six months and that if there was a profit it was carried forward?

Mr. Gray.—If there was a profit in one half year the price to the consumer would be lower in the next half year.

President.—What are the nett realizations? What are the actual costs of marketing? I understood that this new company that you have formed buys kerosene at certain prices and then it sells at other prices. In that selling price there must be some charges for marketing. That, I understand, will be paid by the consumer apparently to start with.

Mr. Gray.—That is added on to the price.

President.—In so far as this company has got to recover these charges I want to know what these amount to: excluding marketing charges what is going to the pockets of the company?

Mr. Gray.—Nothing. There is a marketing organization. In the case of the Burmah Oil Company, Messrs. Shaw Wallace and Company used to get marketing commission.

President.—How much is that?

Mr. Gray.—2½ per cent.

President.—You pay to the company, say, Rs. 5. In consideration of that Rs. 5 you give the petrol *ex*-installation as well as you distribute to the different parties and also this selling company has got to recover its own costs. What are these costs of marketing in addition to the price of the petrol?

Mr. Gray.—The distributing agents render account sales to the pool showing gross return and charges paid.

President.—Can you give me some idea of what this means? How much will the refineries or you get nett out of this Rs. 5 f.o.r. works? Supposing there was no question of any freight?

Mr. Gray.—We simply get what the pool pays to us as contributors.

Dr. Matthai.—Rs. 4-11-4, taking this particular figure, is the average price which the pool paid to the contributing agency. Out of that Rs. 4-11-4 can you give me some idea what is the actual amount realized by the contributing company *ex-refineries*?

Mr. Gray.—It will be possible to find that out, but I can't give you that off-hand.

Mr. Tait.—Rs. 4-11-4 is the average of Rs. 5-12-0 and the other price of the inferior grade.

Dr. Matthai.—Rs. 5-12-0 is the average price paid by the consumer to the pool?

Mr. Tait.—The companies put into the pool at a price and that price and the price fixed by the pool for different grades comes to the same as the aggregate for the oil contributed. Rs. 5-12-0 is really counteracted by Rs. 4-6-0 of the inferior. Rs. 4-11-4 is the average of the two. That is the price in the tanks at the installations in Bombay, Calcutta, Karachi and Madras for the bulk oil. When it goes to the consumer there are certain charges for handling it and carriage of it by railway and the commission to the selling agents. These charges are added on to that bulk price. Also in the case of pack oil the cost of tins is added on to that port price and that is the price that the consumer pays. He pays actually Rs. 5-12-0 in the case of the superior *plus* these distributing charges.

President.—What does this amount to? that is what I want to know. In some of the industries we have found that the cost of distribution in proportion to the value of the article is sometimes very high and it is for that reason that I wish to know what this means. Have you got the weighted average price?

Mr. Tait.—There is what we call post-base charges. These are charges which we incur after the oil leaves the tanks at the installations.

President.—You have given us the weighted average *ex-installation* price here. Have you got the weighted average price for all centres?

Mr. Tait.—No. On top of that Rs. 5-12-0 these post-base charges come to 7 annas per unit. This includes handling the oil, commission to the selling agents in the different towns and his loss in transit and cartage to the godown from the station. These post-base charges are the same all over India.

President.—They come to 7 annas?

Mr. Tait.—About that per unit of 8 imperial gallons. We now have the *ex-installation* price of Rs. 5-12-0 *plus* the post-base charges of 7 annas.

President.—That includes commission to selling agents, does it?

Mr. Tait.—Yes.

President.—That is the wholesale price at these other centres?

Mr. Tait.—Yes, *plus* the railway freight.

President.—After that you do not know what happens?

Mr. Tait.—The kerosene must sell at that price. This price for each station is fixed.

President.—On top of this average price of Rs. 4-11-4 you have got to add 7 annas *plus* freight; that would give the price for all centres?

Mr. Tait.—Yes. Obviously a station near Bombay will pay less than a station like Amritsar.

President.—Then what is the idea of giving an average of 7 annas all round?

Mr. Tait.—These have been found to be the actual charges incurred. The only charge which varies is the railway freight according to distance. The companies will add it on and fix the landed price at the sub-agent's station.

President.--I saw in one of the representations a charge shown for marketing which I could not follow at all. In that case the company does not bear any marketing charges, does it?

Mr. Tait.--The consumer pays the marketing charges in his price; the company does not bear it.

President.--In making any estimate of the fair price it appears that these charges may be excluded from the costs apparently?

Mr. Tait.--Yes. These charges are actual charges. There is no profit made on them.

President.--They are the sort of charges which will have to be borne by any marketing company?

Mr. Tait.--Yes.

President.--If we exclude those charges then your *ex*-installation price becomes really comparable with the import price?

Mr. Tait.--Yes.

Dr. Matthai.--I would like to be clear about one or two points, for example, with regard to the British Burmah Petroleum Company who are one of the contributing companies. Take this price of Rs. 5-12-0 for superior which is the price *ex*-installation that you get out of the pool. Is that your realization?

Mr. Compton.--We as a matter of fact don't get either Rs. 5-12-0 for superior or Rs. 4-6-0 for inferior. What we actually get is Rs. 5-8-0 and Rs. 5-6-0 for the two respectively. These are the contributing prices.

Dr. Matthai.--Taking your contributing price at an average of Rs. 5-7-0 *ex*-installation

Mr. Compton.--That is not quite the average either because these two prices are for the superior and for what is referred to as surplus inferior. Then there is a proportion of some of the Rs. 3-6-0 oil. There are three prices which have to come in to arrive at the average.

Dr. Matthai.--Without committing yourself to any accurate figure can you tell me for illustrative purposes what is the average price *ex*-installation that you got during this period?

Mr. Compton.--Which period?

Dr. Matthai.--I am thinking of the period referred to in the general representation, say July 1927.

Mr. Compton.--I have given you the period prior to the rate war, January to August 1927.

Dr. Matthai.--What is the average price that you got both for superior and inferior?

Mr. Compton.--The average that we realized on the total of our kerosene contributed during January to August was actually Rs. 5-2-4 per unit *ex*-installation.

Dr. Matthai.--Out of that what was your realization at the refinery?

Mr. Compton.--It is that less the incidence of the pre-*ex*-main installation charges which I think amounted to 14 annas 2 pies a unit.

Dr. Matthai.--What does this 14 annas represent?

Mr. Compton.--It represents ocean freight, insurance and the commission that we pay to the Burmah Oil Company and various other small charges.

Mr. Mathias.--Do the Burmah Oil Company take commission from all the contributing companies to the pool?

Mr. Gray.--The Burmah Oil Company also receives a commission from the Attock Oil Company.

Mr. Mathias.--The Attock Oil Company and the British Burmah Petroleum Company do not contribute to the pool. They merely utilise the Burmah Oil Company as their selling agents; otherwise why do they pay to the Burmah Oil Company?

Mr. Tait.--For the use of the Burmah Oil Company's selling organization.

Mr. Mathias.--That is after the petrol leaves the pool. For services rendered after the kerosene leaves the pool.

Mr. Gray.—Yes.

Mr. Compton.—It is for services rendered in connection with the shipment, because we don't handle our oil at all.

Mr. Mathias.—Do you mean the services rendered from the time the oil leaves the refinery till the time it reaches the main ocean installation? The service is rendered by the pool and not by the Burmah Oil Company. I don't quite follow what you mean.

Mr. Gray.—The oil is distributed by the pool partly through the Burmah Oil Company's selling organisation.

Mr. Mathias.—But the selling organisation comes in after the *ex*-installation.

Mr. Gray.—The Burmah Oil Company used to distribute through Messrs. Shaw Wallace and Company to whom they paid a commission.

Mr. Mathias.—That I can understand. What I don't understand is the commission which is paid for services rendered between the refinery and the ocean installation.

Mr. Compton.—That is shipped in their tankers, because the Burmah Oil Company handles the oil from the very start. They transport it to India.

Mr. Mathias.—That is not a service rendered by the pool.

Mr. Gray.—That is a service rendered by the Burmah Oil Company.

Mr. Mathias.—Don't you charge for freight and so on?

Mr. Compton.—That does come off this charge.

Mr. Mathias.—Would it be too much to ask you to give us the charges detail?

Mr. Gray.—I shall try to give you in detail.

Mr. Mathias.—You would prefer not to give it in a public sitting.

Mr. Gray.—Yes.

Dr. Matthai.—As far as your Company is concerned, Mr. Tait, what is the allowance corresponding to 14 annas that you would estimate between the refinery and the installation?

Mr. Tait.—We have our own transportation.

Dr. Matthai.—You must have transportation cost. I am trying to see what will be your net realisation corresponding to the average *ex*-installation price.

Mr. Tait.—I can tell you by reference to our books.

President.—What I want to know is this. Does the Burma Shell Oil Storage and Distributing Company of India, Limited, do the marketing work for nothing or what interest has that company in marketing? I understand you have got your own sales organisation which, I suppose, you place at the disposal of the pool.

Mr. Gray.—Now the Burma Shell Oil Storage and Distributing Company of India, Limited, has taken over the selling organisation of both the Asiatic Petroleum Company and the Burmah Oil Company.

President.—What does that Company get for services rendered from this Rs. 5-12-0?

Mr. Gray.—It gets 2½ per cent. commission.

President.—On the gross price?

Mr. Gray.—Yes.

President.—Is that all?

Mr. Gray.—I am not speaking with any great confidence on this, because I have not seen the final agreement.

President.—That would cover, I take it, their office expenses and various other things.

Mr. Gray.—Yes.

President.—Is that supposed to be a dividend earning company, or is it merely a sort of an adjunct?

Mr. Gray.—It is not a dividend earning company.

President.—It simply serves a convenience.

Mr. Gray.—Merely it puts on a firmer basis the old kerosene pool which was terminable on a six months' notice. This company is to go on for 20 years and I think it requires 2 years' notice to terminate the agreement.

President.—There is this difference in the pool. All the members of the pool share the proceeds. But here there is another party. What I wish to know is whether this Burma Shell Oil Storage and Distributing Company of India, Limited, has got any interest which may be in conflict with the interests of the members of the pool.

Mr. Gray.—None.

Mr. Mathias.—I take it that the Burma Shell Oil Storage and Distributing Company of India, Limited, is an extension of the pool. That is to say the pool which before dealt with the kerosene in the ocean installation has now been advanced a step by the formation of Burma Shell Oil Storage and Distributing Company of India, Limited, and goes right as far as marketing arrangements. Before it was Messrs. Shaw Wallace and Company who took over the marketing arrangements after the actions of the pool have been finished.

Mr. Gray.—Formerly part of the pool's kerosene was distributed through Messrs. Shaw Wallace and Company and part through the Asiatic Petroleum Company and the organisation which was formerly run through Messrs. Shaw Wallace and Company and the Asiatic Petroleum Company is combined in the Burma Shell Oil Storage and Distributing Company of India, Limited.

Mr. Mathias.—Which takes over the operations both of the marketing agents and of the kerosene pool, is that correct?

Mr. Gray.—Yes.

President.—We would like to know a little more about the Burma Shell Oil Storage and Distributing Company of India, Limited. What I want to know is this. Supposing we regarded the Burmah Oil Company as an Indian company in the sense that it has its property here, there may be a distinction as between yourselves and the Shell group.

Mr. Gray.—Yes.

President.—From that point of view I would like to know whether the Burmah Oil Company has got the same controlling interest in the Burma Shell as, for instance, it has in the market.

Mr. Gray.—May I supply that information later?

President.—Yes, I would like to have it because there may be a case for distinguishing between the national character of the Burmah Oil Company and the Shell group.

Mr. Gray.—You want to know whether the Burmah Oil Company has the same control over the Burma Shell Oil Storage and Distributing Company of India, Limited, as it had over the kerosene pool.

President.—Yes. The Burma Shell, I take it, also distributes petrol.

Mr. Gray.—Yes.

President.—But in that apparently the Shell group is not interested at present.

Mr. Gray.—It has marketed, though it has not supplied petrol to India. It maintains its organisation and its brands.

President.—Does it market petrol for the other indigenous companies, because in the case of kerosene you marketed their kerosene? I want to know whether this company markets the petrol produced by the same companies.

Mr. Gray.—It does.

Mr. Tait.—The Burma Shell Oil Storage and Distributing Company of India, Limited, markets petrol for the other contributing companies.

President.—Does it market the other products, lubricating oil and things like that?

Mr. Gray.—Yes.

President.—I want to know about the other oil companies.

Mr. Compton.—We have no other product except wax and it doesn't go to India at all, so that it doesn't enter into it.

President.—Do you market it direct?

Mr. Compton.—It is marketed through the Burmah Oil Company and it is sold on consignment in all parts of the world.

Mr. Mathias.—You make no lubricating oil.

Mr. Compton.—No.

Mr. Mathias.—What do you do with the portion of the crude which usually goes into the lubricating oil?

Mr. Compton.—We have a high percentage of extraction of kerosene and petrol and with the wax there is practically nothing left but residue.

Mr. Mathias.—So that by a slight variation of process, you are extracting more kerosene and more wax than the other companies.

Mr. Compton.—Possibly.

Mr. Mathias.—Then it is always possible to vary the process.

Mr. Compton.—Yes.

Dr. Matthai.—The only other product is asphalt.

Mr. Compton.—It is only a very small quantity. As a matter of fact we are not making that at all.

President.—Is the Burmah Oil Company using the Burma Shell Oil Storage and Distributing Company of India, Limited, for selling its other products?

Mr. Gray.—Yes, in India proper and not in Burma and Chittagong.

President.—So does this Shell group, I take it.

Mr. Gray.—Yes.

President.—Does this Burma Shell group also import fuel oil?

Mr. Gray.—Yes. It also imports fuel oil of the Anglo-Persian Oil Company.

President.—Because there are large imports of fuel oil and I wish to know whether this Burma Shell group imports that.

Mr. Gray.—Yes.

President.—Does it import the bulk of it?

Mr. Gray.—The Anglo-Persian Oil Company and the Asiatic Petroleum Company are members of this new company.

President.—Is the Anglo-Persian Oil Company a member?

Mr. Gray.—Yes, but I cannot say to what extent.

President.—Are there any other companies who are interested in the Burma Shell group?

Mr. Gray.—No.

President.—The Anglo-Persian Oil Company is a sister company to the Burmah Oil Company.

Mr. Gray.—Yes; or perhaps one should say a daughter company!

Mr. Mathias.—The prices of lubricating oil and wax are not affected by the price war.

Mr. Gray.—No.

Mr. Mathias.—Are they on the upward or downward grade? Perhaps you could give us some price for lubricating oil.

Mr. Tait.—It is very low due to over-production in America.

Mr. Mathias.—I wonder if you could give us the price in the same way as you are going to give for other products.

Mr. Gray.—It is not going to affect the Indian market, because very little is sold in India.

Dr. Matthai.—In the Burma Shell Oil Storage and Distributing Company of India, Limited, practically every company which is concerned with the Indian trade is in it except the Standard Oil Company, is it not?

Mr. Tait.—And the Indo-Burma Petroleum Company. A large number of companies import lubricating oil besides the Standard Oil Company such as Vacuum Oil Company, Texas Oil Company, etc.

President.—The Burma Shell Oil Storage and Distributing Company of India, Limited, is it a rupee company?

Mr. Gray.—There was some discussion on that point. I would like to refresh my memory before answering this question.

President.—Will you give us the prices of the various products, viz., fuel oil, lubricating oil, the crude oil and wax?

Mr. Gray.—Yes.

Increase in the supply of crude oil.

President.—I want to go into this question of crude oil to some extent. The position is rather a difficult one as regards this. We have here a shortage to the extent of 30 per cent. of kerosene oil. Apart from making alterations in the percentages of the products, it may partly be due also to the shortage of crude oil and for that reason it is necessary to examine whether the quantity of crude oil available can be increased, so that we may have more kerosene or petrol as the case may be. To-day there is a duty of, I think, Rs. 5-4-0 per barrel on the crude oil. At present no indigenous company is selling crude oil.

Mr. Gray.—That is so.*

President.—Therefore it doesn't seem to me there is any very strong reason at present—the question of Government revenue apart—why more crude oil should not come into the country in order that it should be refined and more kerosene supplied without importing kerosene oil. Supposing this duty was removed on crude oil, so far as the crude oil production of the companies is concerned, would it be affected? I don't think it would *primâ facie*. It would leave the companies where they are. As I was explaining to you yesterday that the germs of war exist so long as there is a shortage of kerosene. The point therefore is whether anything can be done by which the resources of the country in the matter of raw material will be increased and I wish to know whether the companies have any views on that point.

Mr. Tait.—There is one aspect of the position. During a flood period such as we have gone through just now when oil is at a tremendous discount in America, if that oil came in great volume, obviously it would not be worth while for the indigenous oil companies to go on drilling wells of the calibre they have got here. It would pay them rather to import this outside crude oil. Therefore to that extent the development would decline.

President.—I am only concerned just now with merely making good the deficit and it may be assumed that so far as this deficit is concerned, it can be made good from sources at a price not very much higher than the price you are paying now for the crude oil, because it does seem to me that if crude oil could be imported here and refined, it would perhaps be better for the industry than allowing the import of kerosene oil.

Mr. Tait.—Undoubtedly it does provide a means of alleviating the position.

President.—In this sense that it may put an end at some stage to this sort of war arising merely from the shortage of the raw material. I would like you, Mr. Gray, to consider this point and I don't wish you to commit yourself now. I would like the other companies also to consider it, because it is obvious that unless there is more kerosene made in the country without affecting any of your other products there is this danger. It may arise from over-production, but that is quite a different thing. The fact that it may be profitable for some outside companies to compete for the kerosene market in India may

* I should like to make it clear that, in giving this reply, I meant that indigenous refining companies do not sell crude oil as such. These are indigenous producers of crude oil who sell their production to the indigenous refiners.

lead to a war, but we can get rid of that war by increasing the quantity of crude oil and I wish to know how it will affect the position of the indigenous companies if that is done.

Mr. Tait.—It would certainly strengthen the position of the indigenous companies, be they the Burmah Oil Company or others.

President.—I would like to have your considered opinion.

Mr. Gray.—It would tend to discourage the development of indigenous crude oil.

President.—That development should not have reference to the deficit in the every-day requirements. It should have reference only to your future requirements. There should not be an ultimate shortage of crude oil. I am here only dealing with the gap. That gap is filled from outside resources. That should not interfere with the development of your resources.

Mr. Mathias.—Would it not make for the conservation of the resources of the country in crude oil?

Mr. Gray.—The oil might be left in the ground if it was found that the supply could be had cheaper from America or Persia.

Mr. Mathias.—The oil would still be there and after say 10 or 15 years could be developed.

Mr. Gray.—You might not recover the same quantity of oil once the wells were shut down.

President.—I want you to understand that I am not proposing anything which would interfere with your normal expansion. Supposing you have got 70 per cent. of the crude oil that you require, now we assume that you will continue to get that 70 per cent. and you will continue to go on developing your resources to enable you to get that. But there is this gap which has to be filled in by somebody. I only want to know whether the importation of more crude oil into the country will not enable the industry to do that. Then, it secures itself against a war for the purpose of getting hold of the market. I hope I have made my point clear.

Mr. Tait.—Yes.

President.—You might consider it and let us have a note in which we should like you to point out what the possible sources of supply are and how the prices of the crude oil compare with reference to the finished products. We don't want a very elaborate report, but something which would give a fairly accurate idea of how the position stands.

Mr. Tait.—That would take at least two or three days.

Mr. Mathias.—Does not the Burmah Oil Company import crude?

Mr. Tait.—They import fuel oil.

Mr. Mathias.—That is from Basra.

Mr. Gray.—From Abadan.

President.—There is also this thing about the crude oil. There are three big divisions—crude oil winning, refining, and marketing. Unless all the three operations are combined, you cannot do very much. In this case, it may be possible for you to get crude oil even locally from smaller wells. In that way the crude also may find a market which it otherwise cannot. I have not had any time to go into this supply of crude oil, but it struck me that I might have your views. There has been some misunderstanding in the press on this point and I want you particularly to understand that whenever I say anything, it is not an opinion; it is merely a statement made in order to elicit information. It is perfectly obvious. We can express no opinion at this stage. Our mind is open until the very last. Sometimes an impression is gathered that whenever we make a statement it is taken to be an opinion. It is merely made to ask for more information. I would also ask the press that we are not reported in a way in which we may be taken to be expressing an opinion.

There is one other point in connection with the crude oil, and that is as regards the capacity of the refineries. Without straining the resources too

much whether if the refineries had more crude oil, they would be able to cope with it without any extraordinary outlay of capital is a point that you will have to discuss.

Can you tell me the origin of the duty on the crude oil? Why was it levied? Was it purely a revenue matter or was it levied in order to protect the indigenous oil?

Mr. Gray.—It is to give protection, I think.

President.—You will consider in that note whether that protection is required from the economic point of view having regard to the present day conditions.

Dr. Matthai.—This duty on crude has been in force for a long time now.

Mr. Tait.—Yes. I think probably it was imposed at the same time as the duty was levied on kerosene, about 1903 or so.

President.—Excise was levied recently, was it not?

Mr. Tait.—Yes.

President.—The Customs duty was only a nominal duty.

Mr. Tait.—That was the duty I think on fuel oil—7½ per cent. *ad valorem*; and it is 2½ annas on crude oil.

President.—Per gallon or what?

Mr. Tait.—Per gallon. The duty on kerosene was put on in the form of a protective duty to encourage the indigenous industry.

President.—When was it imposed?

Mr. Tait.—In 1903.

President.—At that time one did not know what the resources of the country were.

Mr. Tait.—That was so.

President.—That position might have changed.

Mr. Tait.—As a result of that protection, anyhow the industry has undoubtedly developed.

President.—Quite true. But the industry has not developed sufficiently and there is a shortage.

Mr. Lamb.—At that time there was I think a very severe competition between the Standard Oil Company and the Burmah Oil Company. There was a big fight, as a result of which prices went down to a very low level.

President.—For crude oil?

Mr. Lamb.—For both kerosene and crude.

President.—Is the royalty paid to the local Government?

Mr. Tait.—Yes.

President.—And the licence fee?

Mr. Tait.—That is also paid to the local Government.

President.—And the rest goes to the Central Revenue, is it not?

Mr. Tait.—Yes.

Mr. Mathias.—The import duty on the crude oil goes to the Government of India.

Mr. Tait.—Yes.

President.—As regards the import of fuel oil, the imports are increasing very fast. From the figures we have got, it appears that the import of fuel oil which was in 1920 about 34 million gallons was in 1926 about 96 million gallons.

Mr. Tait.—There is no local fuel oil. There the import duty is purely for revenue purposes.

President.—That is also manufactured out of the crude oil.

Mr. Tait.—Yes, only out of certain kinds of crude oil. The Burmah crude is too rich in other products to be utilised for the manufacture of fuel oil.

President.—Have you imported the suitable kind of crude oil to make fuel oil?

Mr. Tait.—It is a question of price to begin with. All the products which we take out must obviously pay.

President.—The kind of crude oil which will be used for the manufacture of fuel oil will be of an inferior kind.

Mr. Tait.—Yes.

President.—Therefore it would pay to import the crude oil in order to manufacture fuel oil.

Mr. Tait.—It would not.

President.—You can go into that question in the note which you have promised to supply.

Mr. Tait.—Yes.

Proposed remedies.

President.—I want to deal now briefly with the main issue, namely the question of remedies that you propose. There are two or three alternatives. Some deal merely with the temporary relief, that is to say the remission of the excise duty and various other things. I am not dealing with that part just now. I am dealing for the moment with the main proposition that either a duty should be levied on the Soviet oil or the duty should be increased on all imported oil. Those are the two proposals.

Mr. Tait.—In our representation we have not suggested any differentiation between the Soviet and other foreign oil.

President.—We will leave out the Soviet oil for the moment. As regards that, the complication arises from the fact that the Burmah Oil Company is connected with the Shell group and one point which should be cleared up is this. Supposing for the sake of argument the duty was increased, there are two consequences against which the country would like to guard itself. The first is a rise in the price of the inferior oil in the country. If you put a duty all round on the imported oil, naturally the price of inferior kerosene may also go up and secondly if the Burmah Oil Company is entitled to be treated on this footing that it is an Indian industry then the result of the duty must not be that by the fact that the Shell group is connected with the Burmah Oil Company it gets any assistance against its rivals whether it is the Standard Oil Company or anybody else. The country as such would hold a position of neutrality as regards any outside concerns. That is a point that requires some consideration, and, Mr. Gray, I should like you to think it over and tell us. The country may say "so far as the Burmah Oil Company is concerned, we are prepared to protect it against any unfair foreign competition", but if the effect of that is that the Royal Dutch Shell group gets a preference which enables it to compete against its other rivals, then the country may like to consider it.

Mr. Gray.—The country will also desire benefit from an arrangement such as that between the B. O. C. and the Royal Dutch Shell group.

President.—The country may like to maintain more or less a position of neutrality as regards the companies which have not got any properties in India—we will put it that way. There is a difference between the Burmah Oil Company and the Royal Dutch. Both may be sterling companies. But the Burmah Oil Company holds its properties in India, whereas as regards the Royal Dutch we do not know where it is working. To that extent the country may like to consider whether it will not be giving any advantage to the Royal Dutch Shell group against the Standard Oil Company.

Mr. Gray.—The advantage which the Royal Dutch group has is through its having come to this arrangement with the Burmah Oil Company. It pays the same import duty as any other foreign company.

President.—That is true. But the country may say that it will get the same treatment from other companies, and it may not see any reason why it should be dragged into the war between these two foreign groups.

Mr. Gray.—Or why should not the Standard Oil Company be dragged into the arrangement with the Burmah Oil Company?

President.—That is for you to consider. I would like you to understand that there is that point to be considered. As regards any proposals for protection, we must be in a position to say that the scheme of protection, if it is sanctioned, should not extend to any outside companies. The country has no interest in what happens outside. This in conjunction with the other proposition that I put to you, that in any case the price of inferior kerosene should not rise, subject to that and this other consideration we should like you to consider the question.

Mr. Gray.—You mean that the price of inferior kerosene should not rise above what it is now?

President.—No. What I mean is that the price of kerosene should not rise merely because the duty on imported kerosene is increased. You should not make it a ground for increasing the price of your kerosene.

Mr. Tait.—You mean that any difference that exists should not be decreased, it should be widened if possible?

President.—Yes. As regards the Royal Dutch Shell group I understood this morning that they intend to appear and that they are sending in their representation by about the 3rd of May?

Mr. Gray.—Yes.

President.—That would be rather late but in any case we should like to have their representation and, as I suggested, their representative should come down at the same time and if we think it necessary to examine him he should be examined at Maymyo.

Difficulties of the smaller companies.

Dr. Matthai.—There is just one question I want to ask you. As I understand the position of the Burmah Oil Company, your application is primarily on behalf of the smaller companies. Is that correct?

Mr. Gray.—Really we are not applying for protection. We are merely stating that we support the application for protection by the smaller companies.

Dr. Matthai.—You are not applicants for protection but support the application of the smaller companies. The difficulty I feel is this. Supposing in this enquiry we came to the conclusion that some of the smaller companies as a result of the price war would not be able to carry on and the question of protection arose, we have got under our terms of reference to go further and consider, if the smaller companies went out of action as a result of the price war and the Burmah Oil Company continued, whether it is really to the national interest that the smaller companies should be kept alive? The point is this. I notice your own company has often taken the line that the existence of a number of smaller companies doing competitive drilling has been a source of waste. If it so turned out that the smaller companies were put out of action I should say from that point of view it would be of some advantage to the country. How do you meet that point?

Mr. Gray.—If the smaller companies were reduced to such a state that they were put out of action the Burmah Oil Company also would be considerably crippled and would not be able to take up the areas given up by the smaller companies.

Mr. Mathias.—We have seen the recouping powers of the Burmah Oil Company after the previous war in 1895!

Mr. Gray.—It would be ten years before they can do that. . . . The oil industry (which was then considered deserving of protection) did not find its operations so expensive as it does now.

Mr. Mathias.—After 10 years the Burmah Oil Company might find it profitable to drill.

Mr. Gray.—By that time a very considerable quantity of the oil would be lost to us, and by that time foreign oil would have secured a considerable share of the Indian market.

Dr. Matthai.—We have taken the line that an industry as such, if conditions are satisfactory should be kept alive, but we have never taken the line that a particular unit of an industry should be kept alive. Supposing you have smaller companies working on an uneconomic scale using inefficient plant or uneconomic methods the question that the country has got to consider is, is it or is it not an advantage from the point of view of the country as a whole that it should be kept alive?

Mr. Gray.—In the oil industry if operations are given up it may mean a permanent loss.

Mr. Mathias.—Permanent loss of those wells which are at present being worked?

Mr. Gray.—Yes.

Mr. Mathias.—They could be shut down, could they not?

Mr. Gray.—Yes, but if they are shut down for long it is doubtful if we could operate them again.

Mr. Compton.—If wells are shut down for six months or so we have found that when they are opened up we lose 60 per cent. of the oil.

President.—Has the Burmah Oil Company at any time tried more or less to combine with the other indigenous companies and work them as one concern?

Mr. Gray.—No.

President.—Instead of the Burmah Oil Company extending its operations outside India?

Mr. Gray.—There has been no suggestion of a combine.

President.—Is it an impossible suggestion?

Mr. Gray.—Not impossible. It is a matter of arrangement between these companies' directors.

Mr. Mathias.—When you say that if these companies were reduced to what we may call *in extremis* the Burmah Oil Company would be unable to undertake development, I imagine that with the resources of the B. O. C. and with its reputation it would be in a position to float sufficient loan to enable it to undertake development?

Mr. Gray.—Do you think the reputation of the Burmah oilfields stands so high?

Dr. Matthai.—The point that was raised a little while ago that if the smaller companies go out of action some of the existing wells which they are operating may have to be closed down and to that extent there will be a loss, is an argument which you can use in regard to any industry.

Mr. Gray.—In other industries you are able to recover the loss after a time.

Dr. Matthai.—Is there anything in the Oil industry that would justify our taking up a different position from other industries? There is the cotton industry for instance. If you have 30 per cent. of the mills working on an uneconomic scale the fact that the rest can get on under present conditions may be urged as a ground for refusing protection. We cannot differentiate oil from other industries, unless there are sufficient grounds.

Mr. Mathias.—There is just one other point in that connection. You were saying that a certain amount of oil will be lost to the country if the wells are closed down—it arises in connection with the question of competitive drilling. There are a certain number of wells which even if they were closed down by the smaller companies would feed a number of wells tapped by the Burmah Oil Company, that is to say your own wells would tap a number of wells belonging to the other properties?

Mr. Gray.—I don't think the Burmah Oil Company would be able to recover all the production.

Mr. Mathias.—I mean a proportion?

Mr. Gray.—Yes, some of it.

President.—Supposing the Board took that view, would the Burmah Oil Company regard the proposition in this way that once the smaller companies are shut down they would get their properties for nothing if they waited for sometime?

Mr. Gray.—I am afraid I could not answer that question. If the present conditions continue the Burmah Oil Company will be put to a loss like the smaller companies.

President.—I have no doubt what the answer would be! They would look at it from the purely business point of view. Supposing we decided that we could not make any distinction between the most efficient and the younger companies. The Burmah Oil Company goes on and these gentlemen begin to sink one after another. Then you say "Now they are dead; let us bury the dead". Would you do that or would you go to their help and say "you are sinking, put your oil in our tank". That of course is one of the points which will have to be considered. I am asking you whether from your point of view you would regard that as a regrettable step?

Mr. Gray.—I think it would be. It might result in reduction in the existing production.

Mr. Mathias.—Would it be possible to market the oil very much cheaper? You would avoid competitive drilling which means a very considerable outlay, it would mean a considerable reduction of expenditure, would it not? That also would mean cheaper crude oil. On the whole an amalgamation of that sort will probably result in substantial economies.

Mr. Gray.—Probably it will.

Origin of the rate war.

President.—Have you seen the representation of the Standard Oil Company?

Mr. Gray.—Yes.

President.—First of all we will hear your point of view—how you suggest the war started—and then we shall examine the Standard Oil Company on that point and when you come again you may give an explanation. That is the only procedure we can follow.

Mr. Gray.—The only information I can give is what appeared in the press. I have no first hand information on the subject. The communiqué appeared about the 19th of January in the papers as regards the question of Soviet oil.

President.—Is that a statement of the directors of the Standard Oil Company?

Mr. Gray.—It was sent out from London by the Royal Dutch Shell Group. It was telegraphed out from London on the 19th January.

President.—We may have seen it, but I have no recollection of that. There was a very small Reuters cable.

Mr. Gray.—It was 2½ pages.

President.—It never appeared in that form in any of the newspapers that I saw.

Mr. Gray.—May I read the letter?

President.—Yes.

Mr. Gray.—"The communication from the Standard Oil Company of New York, which appeared recently in the papers, was issued by the Standard Oil Company, so that the public may have the facts.

As the Standard Oil Company omitted all reference to those facts which have been the cause of the present situation in the kerosene market, we propose, although they have already been published by the Royal Dutch and shell Companies, to set them out again.

The essential fact is that valuable oil properties situated in Russia, which were acquired for payment and developed by a large expenditure of capital, were seized, together with all available cash, without compensation, from the

rightful owners, conspicuous among whom was the Royal Dutch Shell Group.

Ever since the War and down to 1926, the Royal Dutch Shell Group have been negotiating directly and indirectly with the Soviet Government for compensation, not only for themselves, but for all others similarly deprived of their property.

With the object of keeping the door open for such compensation, and at the specific request of the British Government, the Royal Dutch Shell Group at intervals during the course of these negotiations have openly made purchases of Russian oil, but on no occasion have their purchases been made except with the full knowledge of others equally interested with them in securing the same end.

The Standard Oil Company have made purchases with the full knowledge of the other interests, but a time came when it seemed clear that the door to compensation was not being opened but that it was possibly being closed by such purchases and the expropriated owners mutually agreed that it would be in the interests of everybody for all purchases to cease.

The communication of the Standard Oil Company does not explain to the public why they did not still continue their purchases of Russian oil. The explanation is to be found in the arrangement we have referred to above, of which the Standard Oil Company's recent purchases are a breach.

The suggestion that the Royal Dutch Shell Group sought a monopoly of Russian oil is untrue. This is, indeed, shown by the fact that the negotiations for the purchase of the available exports of Soviet oil were usually conducted not by the Royal Dutch Shell Group but by parties who are known to the Standard Oil Company of New York, acting for and on behalf of all those interested including the Standard Oil Company of New York.

The Standard Oil Company of New York by making purchases independently, without insisting on the principle of compensation, jeopardised the chances of bringing home to the Soviet Government the necessity to make compensation, and they have encouraged them to continue their course of disposing, without redress, of other people's properties. It is because of this that the Royal Dutch Shell Group joins issue with these activities of the Standard Oil Company in placing the whole of their marketing organisation in India at the service of the Soviet Government with the object of disposing of stolen oil, which, because it was stolen, can be sold regardless of the normal economic conditions.

There can be no right-thinking man, alive to the vital importance of maintaining honest and honourable trade and to the necessity of protecting the rights of private property and labour, who can possibly condone the actions of the Standard in placing its organisation at the disposal of those who had disregarded both, merely in order to secure some temporary monetary advantage.

The Royal Dutch Shell Group could not act otherwise than make the stand it has made against an action so destructive of the sanctity of property, nor could the indigenous petroleum producers in India remain passive in the situation thus created in their home market; but it is significant that they had no hesitation in deciding that, since no escape was possible, their weight would certainly be thrown in on the side of those upholding the principles of fair and honourable trading."

President.—As I told you yesterday, we are not concerned with the moral question just now: not that we don't care for morality in the ordinary sense, but I don't think it comes within the scope of the enquiry. That will require a very close examination of the evidence as regards the claim of the Royal Dutch whether it is well founded against the Soviet Government, what the Soviet Government has got to say against the Royal Dutch Shell Group and how the Standard Oil Company thought it necessary to depart from that agreement if it was made and so on. Those are obviously questions which we can't go into. What we are concerned with is simply this. We are concerned with the indigenous industry and we want to know whether they have entered into this price war, and whether it was in their economic interests to do so.

I think that narrows down the issue. Obviously, as I say, we could not go into the other aspect of the question.

Mr. Gray.—They could not have been abstained from entering the war.

President.—That is a point about which we require evidence.

Mr. Gray.—If an outside company sells at a rate which is lower than the rate at which indigenous companies are prepared to sell, they have got to follow.

President.—That is the thing with which we are concerned whether it was necessary at this stage and whether some other line of action might have been adopted by the companies. Of course it is very difficult, but I would like to hear your views on the question as to how it happened that the Burmah Oil Company came into the war. The first thing is what was the date at which you definitely decided that it was to your interest to enter the war. According to the Standard Oil Company and according, I think, to your own evidence also the cut in prices began on the 23rd of September, is that right?

Mr. Gray.—Yes.

President.—The prices were cut in India—at least they said that the prices were cut—by you and the Royal Dutch.

Mr. Gray.—It was the Asiatic Petroleum Company who originally reduced the prices.

President.—The point is whether the Asiatic Petroleum Company did it themselves or under an arrangement with you. At that stage on the 23rd September or before it had been arranged by the Asiatic Petroleum Company with you that the cut in prices was to begin on the 23rd September. That is rather an important date.

Mr. Gray.—The position is that, under the kerosene pool arrangements, the Burmah Oil Company could have required the Asiatic Petroleum Company to hold prices until the 31st December, but not longer than that. The Asiatic Petroleum Company gave notice of the termination of the agreement.

President.—When was that notice given?

Mr. Gray.—6 months notice was required, but I cannot say the date of the notice.

Mr. Mathias.—If the arrangement with the Asiatic Petroleum Company was to end on the 31st December and that 6 months notice was required, the notice should have been given 6 months earlier.

Mr. Gray.—It seems so, but I cannot say.

President.—In any case would the Asiatic Petroleum Company have taken that step without first either terminating the agreement which you say could not have been terminated or obtaining your consent?

Mr. Gray.—They could very well. We cannot prevent them from terminating their agreement with us.

President.—That is to say they would have risked their breach in any case.

Mr. Gray.—I should think so.

President.—Did you give your consent? That is the point.

Mr. Gray.—I don't think we had much chance of consenting or otherwise.

President.—Was not the Burmah Oil Company kept informed of what the Asiatic Petroleum Company was doing?

Mr. Gray.—Yes. There was no way in which the Burmah Oil Company could have prevented their terminating the agreement if they wished to. Once the agreement was terminated, they could not control the prices.

Dr. Matthai.—Since you are the leading company in the kerosene pool and the kerosene pool controls the kerosene market, if you did not actively support the war, could the rates have been enforced in the market?

Mr. Gray.—Yes.

Mr. Mathias.—Exactly in what way? If you supplied the bulk of the demand in India in what way could the Anglo Dutch Company have enforced their rates?

Mr. Gray.—If two people are trying to sell the same article in the same market at the same time, the price is going to be regulated by the man who quotes the lower price.

Mr. Mathias.—Not necessarily. It depends upon the supply. If I sold 10 or 20 tons of kerosene oil in India, I don't think the price at which I sold would affect your price.

Mr. Gray.—In this case the supply was sufficient.

Mr. Mathias.—Could the Anglo Dutch Company supply the whole demand of the market?

Mr. Gray.—They would have supplied enough to affect the price.

Mr. Tait.—The extract from the Economist which has been submitted to you shows the extent of the standing of the Royal Dutch in the world oil fields.

Mr. Mathias.—But the point is what part of their oil were they in a position to sell in India.

Mr. Tait.—I should think they could flood India with oil if they wished to.

Mr. Mathias.—Without seriously affecting their position.

Mr. Tait.—Yes.

President.—Were you told that if you didn't agree, they would bring the oil?

Mr. Gray.—I am afraid I cannot say. All these negotiations took place in London. There was no direct consultation with the Asiatic Petroleum Company in Rangoon.

President.—We are not concerned with the Asiatic Petroleum Company here really speaking. We are only concerned with the part that the Indian Industry took in that negotiation. I think you would agree that it would be better if we knew what actually took place. It is very important because one of the criticisms that can be made and has been made is that if the Indian Industry, without any necessity, entered into the war with open eyes, it cannot really come forward for national assistance. One of the grounds given was that they have the sympathy with the Asiatic Petroleum Company. If that allegation stands, you can understand what effect it will have on the public mind. I am just suggesting to you that if you can clear up the position, it will be better.

Mr. Gray.—I think I explained in my representation the reasons which induced the Burmah Oil Company to enter the war.

President.—Those are *a priori* reasons and I want to know what actually took place between you and that company. You and I can say without going into the evidence that the Royal Dutch Shell Group is a very powerful group; it wouldn't care whether it broke an agreement with you and that if it had to pay damages, it would be in a position to pay.

Mr. Gray.—It would not be a breach.

President.—It had to give you 6 months notice. If it didn't give that, it would be a breach for which it would be prepared to pay you if there was a case. Having done that without consulting you, it could also take whatever course it thought was necessary and so on. I can argue like that *ad infinitum*. That is quite a different thing from the Burmah Oil Company being able to say "they tell us they are going to break this agreement. They can't give us 6 months notice. They must reduce these prices. Thus it became necessary for us to follow them." That is a sort of explanation that might meet the criticism. But if you merely said that, on the face of it, the Burmah Oil Company could not have taken any other attitude, it is not so easy to follow.

Mr. Gray.—I shall have to cable to London for this. If you put the question in a concise form, I shall do so.

President.—What I want to know is whether the Burmah Oil Company made any protest in writing against the contemplated action of the Asiatic Petroleum Company and whether in spite of the protest, the Asiatic Petroleum Company persisted in making the first cut on the 23rd September. If there is any correspondence on that point, we may be supplied with copies.

I would like you to understand the point, so that you could word the cable in any way you like. This criticism has been made as you can see that the Burmah Oil Company out of sympathy more or less with the Asiatic Petroleum Company and the Royal Dutch Shell Group allowed itself to go into the war. That, of course, has reference to the beginning of the war, i.e., first cut. Now as regards the later period, there is a suggestion made by the Standard Oil Company at any rate after or 17th of October that it definitely came into the war when the Russian cargo arrived in Karachi.

Mr. Gray.—Yes.

Mr. Mathias.—Your case is that owing to the economic necessity you had to follow the Anglo Dutch.

Mr. Gray.—Yes.

Mr. Mathias.—Once having gone into the war, you have thrown yourselves into the conflict heart and soul. Is that the correct interpretation or have you been unwilling captives dragged behind them?

Mr. Gray.—We have supported the Asiatic Petroleum Company.

Mr. Mathias.—Once you decided to come in, you supported them throughout.

Mr. Gray.—Yes.

President.—There is one other general aspect of the question that I think you ought to clear up if possible. Reading this combined representation and the other supplementary representations of the same date, viz., the 15th December 1927, one gathers the impression that all the companies have been dragged into the war. It has not been made clear to the Government of India that the Burmah Oil Company and I suppose the other allied companies were before that date, that is in October, combining their resources already to fight the Standard Oil Company. I am just stating the impression that that representation left on my mind. I do not know how other people read it but I certainly gathered the impression that it was not made quite clear that when you were writing that representation you had already made arrangements for a combined fight with the Asiatic Petroleum Company against the Standard Oil Company. Your circulars indicate your line of action, how you mobilised your forces and so on. But this fact did not appear from the representation. I may be quite wrong, but that was my impression. If the Government of India also had formed that impression, they would not like it very much. Sometimes when a representation is written out, a thing which may be perfectly obvious to the man who writes it is not so obvious to the man who reads it.

May we take it that the first step was taken by the Asiatic Petroleum Company on the 23rd September in the matter of the reduction of prices?

Mr. Gray.—Yes.

President.—You are not in a position to tell us as to what took place between you and the Asiatic Petroleum Company before that date, are you?

Mr. Gray.—I am not, but I will make enquiries.

President.—After the 23rd September, would you please give us how the rate cutting went on day to day? We would like that information.

Mr. Gray.—Yes.

President.—Of course, the position is very different. Once it is admitted by the Asiatic Petroleum Company that it took the first step, then the Standard Oil Company's case is that they had to follow. They could not obviously allow the Asiatic Petroleum Company to cut into the market without cutting their own rates. I am just trying to point out that their position is absolutely the same as yours.

Mr. Gray.—The Asiatic Petroleum Company reduced the rates in order to bring pressure on the Standard Oil Company.

President.—There is a further general allegation. After you had entered into the war, your policy is not merely one of self defence, but it is more or less an offensive against the Standard Oil Company in this sense that you not only wanted to maintain the position as it was before the war but that you wanted to take away as much of the Standard Oil Company's business as was possible. That is the next allegation.

Mr. Gray.—My principals thought that the best way of stopping the attack was to take the offensive.

President.—Very often wars of aggression start with the wars of defence, as you know. The Standard Oil Company have put in a certain number of circulars issued by the Asiatic Petroleum Company as well as by yourselves. I suppose you don't dispute that they were sent out by you.

Mr. Gray.—I am not in a position to dispute them until I see them.

President.—It is a pity that the Asiatic Petroleum Company people are not here because it splits up this examination unnecessarily.

Mr. Gray.—I am afraid I had nothing to do with these circulars. As a matter of fact I was in England at that time.

President.—That cannot be helped. The point is that the Standard Oil Company have supplied us with copies of circulars issued by Messrs. Shaw Wallace and Company, Karachi. In the circular letter, dated the 17th October 1927 you say: "We confirm our telegram of to-day's date instructing you to reduce your kerosene oil rates for all brands by one rupee four annas per unit immediately. We want you to realise that this drop in rates will be of no use either to you or to the Company if you do not sell and sell and sell. You must get your stocks out of your godowns into the hands of dealers and this must be done at once. We and the Asiatic Petroleum Company are out to take from the Standard Oil Company every unit of trade and we rely upon our sub-agents to give us all the support for which we ask. We repeat sales must be made now at once and dealers (especially Standard Oil Company dealers) must be stocked up to the greatest possible extent. Clear your stocks and wire for more. You will receive them from us immediately and that in this time of crisis we shall, provided you increase our sales take every precaution to see that you do not lose by doing so. We ask for your support and in return be sure that we shall support you." Then later on you say: "Remember that the Burmah Oil Company and Asiatic Petroleum Company are one and united against Standard Oil Company and no consideration must be allowed to stand in the way of your attack on Standard Oil Company's trade." That was the allegation I was referring to. You might have been dragged into the war at the early stages, but certainly on the 17th October 1927, according to the circular sent out by Messrs. Shaw Wallace and Company, Karachi, your intention was not merely to defend yourself but to take a very pronounced attitude.

Mr. Gray.—With a view to exert as much pressure as possible to shorten the period of hostilities.

President.—That is rather different from merely defending your position. I daresay that it may be an effective way of carrying on the war, but to an outsider it seems that you were not merely satisfied with defending your own position but that you wanted to get the Standard Oil Company's trade as much as possible.

Mr. Gray.—We were aiming at an early termination of the war.

Mr. Mathias.—Even if you had not joined the Asiatic Petroleum Company you say the economic necessity would have compelled you to reduce your rates. Probably you would not have reduced your rates quite so quickly and sharply.

Mr. Gray.—Once the war had broken out we thought that the wisest policy was to support the Asiatic Petroleum Company with a view to terminating it as soon as possible.

President.—Was not the cut of Rs. 1-4-0 a big one?

Mr. Gray.—Yes.

President.—You must naturally expect that the Standard Oil Company also would defend themselves.

Mr. Gray.—Yes.

Mr. Mathias.—From your point of view and from the point of view of the Indian industry if you had reduced your price by rather less than Re. 1-4-0, would it really have affected the war? Would it have lengthened the war? After all, you must expect that the Standard Oil Company would follow your cut. Supposing you had started with a cut of eight annas, it would have saved the Indian companies a considerable amount without really affecting the war one way or the other.

Mr. Gray.—The larger the original cut, the sooner will people get tired of cutting.

Mr. Mathias.—Why not make a cut of Rs. 2-8-0 straightaway?

President.—Your explanation is that this is the quickest way of putting an end to the war.

Mr. Gray.—Yes.

Dr. Matthai.—You discovered on the 17th of October 1927, that the war was inevitable and that you had to be in it. Once you were in it, you thought that the best way of terminating it would be to wage it as strenuously as possible.

Mr. Gray.—Yes.

President.—The whole point of it is that at that time, as far as I can see, from the representations, the Standard Oil Company never said for a moment that they were going to cut their rates.

Mr. Gray.—No, they didn't.

President.—That being so, was it necessary for you at any rate to reduce the rates or say even for the Asiatic Petroleum Company? If, of course, you thought that the Standard Oil Company was dumping the Soviet oil in India with the intention of cutting rates and with the intention of attacking some of your own markets, one could understand. But as far as one can gather from these representations, the Standard Oil Company never at any time suggested that they were going to cut their rates.

Mr. Gray.—The Royal Dutch wished to bring the Standard Oil Company to terms in the matter of Soviet oil, but the ordinary negotiations broke down. There is only one way in trade of bringing pressure to bear and that is by cutting rates.

President.—It bears a different aspect altogether from our point of view, does it not? We are merely looking at it from the economic point of view. We are not concerned with the moral rights or wrongs of the controversy.

Dr. Matthai.—I have got here some trade figures. I do not know how much reliance can be placed on these figures. I find that the average prices of Russian oil imported into India were:

Rs. .64 per gallon in September.

Rs. .62 per gallon in October.

Rs. .45 per gallon in November.

In November when the price of Russian oil went down to .45 rupees the oil imported from the Straits was .38. The difficulty I would like you to consider is this. When we look at these figures we get the impression—unless it is explained otherwise—that as far as the Standard Oil Company is concerned they sent their supplies of Russian oil to India about the time the war broke out at .64 per gallon. That was more or less the price at which the Russian oil came to India in 1924-25 and 1925-26. That price was maintained and till the price of oil from the Straits went down to .38, the Standard Oil Company did not reduce the price. That is the way it looks. I don't say that much reliance can be placed on these figures.

Mr. Gray.—Is it the Customs valuation?

Dr. Matthai.—Yes

Mr. Gray.—I don't think that very much reliance can be placed on them.

Mr. Mathias.—Supposing you had not joined the war at all, you said this morning that the hard facts of economics would have compelled you to do so at one time or another. But surely that would have been a very gradual process and it would have cost very much less to you and to the industry. For instance, we were told this morning that the Royal Dutch Company had enough supply oil to swamp the whole Indian market but it would have been rather a slow process—mobilising their resources and importing it into India. You could probably have carried on, perhaps, for a year at very much better prices than you are getting. Is not that correct?

Mr. Gray.—It might have been so.

Mr. Mathias.—On the same line of argument, it would follow, would it not, that these things are matters of time and they are not adjusted in a day or two. Probably the Indian industry would have been, at any rate for a year or so, considerably better off.

Mr. Gray.—Some markets would have been affected sooner than others. It is difficult to say how it would spread from one market to another.

Mr. Mathias.—You would be better off to this extent. First of all, the prices would have been maintained until the 31st of December or you would have got damages against the Royal Dutch Company. After December, the process would have been somewhat gradual.

Mr. Gray.—Yes, it would have been more gradual than it was.

President.—That being the position, so far as the indigenous industry is concerned, what might have been a defensive war become one of aggression. That requires some explanation. We might look at it this way. So far as you are concerned, really speaking you have not got the oil with which the indigenous industry can acquire any additional market because you are already importing. The inference is that both you and the Asiatic Petroleum Company wanted to drive out the Standard Oil Company from the country and take their share of the market.

Mr. Gray.—We wanted to put pressure upon them so that they would think that were going to lose the market, anyhow.

President.—The whole idea was, was it not, to make the Standard Oil Company realize that it was not to meddle with moral forces!

Mr. Gray.—The object was to bring them to terms on the question of the Soviet oil.

Mr. Mathias.—The Burmah Oil Company got nothing out of that?

Mr. Gray.—No.

Question of compensation.

President.—It is really the Asiatic Petroleum Company which has got a grievance against them. You are not personally interested in it except in so far as the Asiatic Petroleum Company are your friends. The Asiatic Petroleum Company is a very powerful body. It has got very vast resources. Would it not be the duty of the Asiatic Petroleum Company in that case to protect you and the other smaller companies in this war against the Standard Oil Company? It thinks it is necessary that all of you should join and, therefore, is it not the duty of that company to say "we want to fight the Standard Oil Company; we know that you are not directly interested in this fight, but we want your assistance and it is for us to give you the sinews of war instead of allowing you to take care of yourselves." If the Asiatic Petroleum Company takes the moral standpoint, if it looks at it from the moral point of view, is it not its moral duty to come to the assistance of its supporters?

Mr. Gray.—I thought you were really putting the moral aspect out of consideration!

President.—I put it that way because that is the argument used by you as well as the Asiatic Petroleum Company.

Mr. Gray.—I have no doubt my principals at home have put that point before the Asiatic Petroleum Company.

President.—I should be interested in knowing whether the Asiatic Petroleum Company would not be willing to shoulder some of the burden which it has thrown upon the indigenous industry.

Mr. Mathias.—Have you made any suggestions to the Asiatic Petroleum Company in this direction? It is of some importance because it does seem to me that the indigenous industry has everything to lose and, as far as I can see, nothing to gain. That being so, I should have thought that it was up to the Asiatic Petroleum Company that a portion of the loss should be shouldered by them.

Mr. Gray.—I do not know what negotiations are going on in London.

President.—Do you think it would be right for us to look at it from this point of view, that the Asiatic Petroleum Company had a certain grievance or a moral right or something like that to vindicate; it could not do it by itself unless the Indian indigenous industries also joined. The Indian indigenous industry, according to you, had no option but to join, and that industry having joined, is it not the duty of the Asiatic Petroleum Company to make some proposals which would result in some assistance to the industry?

Mr. Gray.—I think that is a reasonable view to take but there is no means of enforcing it.

President.—It is not a question of the Government of India enforcing it. I will put it to you this way. We—that is this country—are a neutral body; we do not want to interfere in any war that they choose to undertake. If they enter the war and inflict injury to the Indian industry, don't you think that it would be justified in saying "you have done this, it is your duty to come to our rescue?"

Mr. Gray.—It might reasonably say so.

Mr. Mathias.—Would not the Asiatic Petroleum Company, in the event of these Indian companies being in *extremis*, be prepared to back them?

Mr. Gray.—No doubt, it would.

President.—When they appear to give evidence we will have to put this aspect of the case to them, but in the meanwhile it may be just as well for you, if possible, to let us know whether any attempt has been made by the Burmah Oil Company in that direction.

Mr. Gray.—I will make a note of it and let you know.

President.—Of course, it is very difficult to say how far this war may extend in this sense that how far the prices may be reduced. We have known of rate wars where companies have given money to the consumers instead of charging them anything. Do you consider that the limit of rate cutting has been reached?

Mr. Gray.—Yes. There is now an upward tendency.

Dr. Matthai.—Is that upward trend due to a rise in the world parity prices or is it because the price war has reached its maximum? There are two forces: there is the world parity price and there is the cut price. At present there is the upward trend. That upward trend may be due to f.o.b. prices going up, or to the fact that you are reducing the cuts in prices.

Mr. Gray.—I think the upward trend is due to the fact that the prices had got out of hand. The tendency now is to restore the position.

President.—What are the rates?

Mr. Gray.—They vary all over India. Do you want the rate from each main installation?

President.—Yes.

Mr. Gray.—I am afraid I have got nothing more recent than 17th March when the rate was Rs. 3-3-8 per unit.

President.—That is a rise of how much over the previous rate?

Mr. Gray.—The lowest was Rs. 3-2-5.

President.—That is for both qualities?

Mr. Gray.—That is the average of both qualities. On the 31st March the rate was Rs. 3-5-7. That is the latest.

Mr. Mathias.—When these prices become stabilized it becomes a question of endurance between the two companies?

Mr. Gray.—Yes. There may be a further increase. It has not returned to the normal yet.

Dr. Matthai.—We may take it that this present upward trend is a permanent one. In previous years there had been ups and downs—Rs. 3-2-0 for some time, then Rs. 2-3-3 and then again a slight increase, but I suppose the present trend may be expected to continue?

Mr. Gray.—It will not continue until it reaches the pre-war price unless some agreement is reached between the disputants.

Mr. Mathias.—You mean prices will steadily go up until some agreement is reached?

Mr. Gray.—No. It will not reach the pre-war prices until an agreement is reached.

President.—Not necessarily the pre-war rate but the world parity rate.

Mr. Gray.—Yes.

President.—At present we have not got enough information as to what the world parity prices are. The difference between that and your average price is the loss to you from your point of view?

Mr. Gray.—Yes.

Mr. Mathias.—Could you give us any idea what the prices might go up to?

Mr. Gray.—I can't give you that.

President.—The point we have to consider is not so much the drop in the average but the drop in your price of superior kerosene because that really is the war and the rest is merely a consequence of it. Unless we are satisfied that this difference that you maintain between the two grades of kerosene.....

Mr. Gray.—That matter is now under consideration. We are now actually reducing the differential in India. The instructions were that superior would be reduced by 4 annas and inferior increased by 4 annas. That will make a differential of 14 annas.

President.—If we took the original figures of Rs. 5-12-0 and Rs. 4-6-0, they would become Rs. 5-8-0 and Rs. 4-10-0?

Mr. Gray.—That is right.

Mr. Mathias.—Actually I suppose the consumer of inferior oil will have no grievance provided the prices were not in excess of your maximum price policy.

Mr. Gray.—In fact the consumer knows nothing of the maximum price policy.

Transfer of demand from inferior to superior.

Mr. Mathias.—I don't quite understand why it is necessary for you to go on decreasing the price of your inferior oil as you go on decreasing the price of your superior. Why should you not sell your inferior at Rs. 3-2-0? You have no competition from the Standard Oil Company here. So far as the consumer is concerned he would be getting it 4 annas cheaper. What is the objection to that? Four annas, judged by the Dutch East Indies price appears to be the measure of the difference between the two. What is your price for superior? What corresponds to this average price of Rs. 3-5-7?

Mr. Gray.—Rs. 3-3-8 corresponds to Rs. 3-11-10 for superior.

Mr. Mathias.—Why should you not keep your price at Rs. 3-6-0 as it was originally? You don't stand to lose anything thereby.

Mr. Gray.—The reason for preserving the differential between the two oils is that if you keep the price of inferior too near the price of the superior it means that it makes it easy for the consumer of one to transfer to the other.

Mr. Mathias.—I understood that the people who use inferior oil do not want the superior oil. It is the poorest people who used vegetable oil use this smoky oil. At any rate it would take some time for the custom to transfer?

Mr. Gray.—Transfer takes place fairly quickly.

Mr. Mathias.—What is the measure of the difference? So far as we can judge from the Dutch East Indies the measure is 4 annas, that is to say, provided your inferior oil is 4 annas below the superior you ought to be able to get a market for that. It is very puzzling.

Mr. Gray.—It means a transfer of demand.

Mr. Mathias.—Then you can only determine it by experiment.

Mr. Gray.—Yes.

Mr. Mathias.—Why not reduce your price gradually in the case of your inferior oil.

Mr. Gray.—You mean in the present case.

Mr. Mathias.—It doesn't seem to me to be necessary to make this enormous cut in regard to the inferior oil. You could have gone much more gradually.

Mr. Gray.—That we are remedying by putting up the price of inferior and reducing the price of superior.

President.—At present the maximum price policy is not current or it has been practically abandoned.

Mr. Gray.—Since the pool broke down, we have not been getting so much as Rs. 3-6-0 for inferior kerosene.

Mr. Mathias.—There is no necessity for the maximum price policy any longer.

Mr. Gray.—No.

President.—As regards this inferior oil that you get from the Royal Dutch Shell Group, is it as inferior in quality as the indigenous oil?

Mr. Gray.—No.

President.—Because if it was, then perhaps in that case also the differential might have been very much higher than 4 annas. But supposing that oil was nearly as good as the superior oil, then a difference of 4 annas might just do without necessarily leading to substitution. A man may not want to throw away even 4 annas if the oil, for all practical purposes, is as good as the other. Is that a factor which has any effect on this high differential that you have here in India as compared with the imported inferior?

Mr. Gray.—I don't think that is a factor.

President.—Supposing your inferior oil was of the same quality as the imported inferior oil, then in that case the differential might be 4 annas as there is at present in the imported in order to sell that oil.

Mr. Mathias.—At present you mix it with the inferior oil.

Mr. Gray.—To some extent.

Mr. Mathias.—Instead of mixing it, if you were to put it on the market and charge 4 annas below your superior, it would be rather advantageous to you. You would be getting a higher price for that oil and you would be getting the same price for the superior oil.

Mr. Gray.—I suppose one would.

Mr. Mathias.—To that extent it might mitigate your losses.

Mr. Gray.—Yes.

Mr. Mathias.—That would apply of course to the pool as a whole. Any advantage you get from that would be shared by all the members of the pool.

Mr. Gray.—Yes.

Mr. Tait.—That particular inferior Borneo oil has only been handled hitherto by the Asiatic Petroleum Company.

Mr. Mathias.—It goes into the pool.

Mr. Gray.—It is contributed to the pool.

Mr. Mathias.—If it is sold 4 annas below the superior grade, you would be reducing your losses to some extent. You would be getting the same price for your inferior and considerably more for the Dutch East Indies oil, so that your net profits must be higher.

Mr. Gray.—Yes, they would be.

President.—If you could reduce the differential to 4 annas.

Mr. Gray.—Yes, on this particular oil.

Mr. Mathias.—The differential would still be the same standing at 14 annas as regards the imported oil.

Mr. Gray.—The differential between all superior and inferior oil will not be 14 annas.

Mr. Mathias.—It was Rs. 1-6-0 before.

Mr. Gray.—Yes.

President.—But the point is that part of the imported inferior oil which is really superior will be sold at the inferior oil rates.

Mr. Gray.—It is not really superior; it is a better grade inferior oil than our own.

President.—It is not as inferior as your inferior.

Mr. Gray.—No.

President.—That is to say, a man who buys this superior inferior imported oil gets a better value for the money than a man who buys the indigenous oil.

President.—There is another letter, dated the 22nd October. That was also written by Messrs. Shaw Wallace and Company.

Mr. Gray.—From what port was this written?

President.—From Madras. There it says: "The time has now come to explain to you that a very different state of affairs is now existing to that prevailing a month ago, and we write to you to inform you that we must insist in future on each of our sub-agents co-operating to the fullest extent with the Asiatic Petroleum Company Sub-agent in his district." Then it goes on to say: "We wish you to know that we are now out to take away as much trade from the Standard Oil Company as we can and, although it is quite possible that some sub-agents may be able to carry on a war against Standard Oil Company perfectly well on their own, there is absolutely no doubt that, if two sub-agents combine together and co-operate in their attack, this concerted attack will be far more effective than if each sub-agent were to work independently." That is a sort of unified control of the army.

Mr. Gray.—Joint pressure.

President.—That circular is more strongly worded than the one I read out to you. At this stage there can be very little doubt that the Burmah Oil Company have already made up its mind to see that the Standard Oil Company should be driven out.

Mr. Gray.—Yes.

President.—Besides the cut in the rates, it has been suggested that the Burma Shell Group have given various kinds of rebates, is that correct?

Mr. Gray.—Yes.

President.—Could you give us some idea of what form they take?

Mr. Gray.—I am afraid I have not got the details here.

President.—It is relevant in this way. If you were to measure the effect of the war on the different companies, it would not be enough merely to take the difference between the two prices. We have to make some allowance for

these other indirect reductions in prices. Will you be able to give some idea as to what these mean?

Mr. Gray.—They have been taken into consideration in arriving at the figures we have already given. They have been considered as a marketing charge.

President.—Is that so?

Mr. Tait.—The rebates vary according to the amount of trade.

President.—What it means is this. The average realised price practically includes everything.

Mr. Gray.—Yes.

President.—It is also further stated that you have indemnified these sub-agents against losses by further reductions in rates.

Mr. Cameron.—That is correct.

Mr. Tait.—That particular rule originated from the Standard Oil Company.

President.—That would be rather a difficult business exactly to find out what each agent has got. It requires a very close scrutiny of his accounts from day to day. Has any compensation been paid so far to these sub-agents?

Mr. Cameron.—Yes. I believe all the sub-agents and dealers who have had stocks when the rate war commenced have been allowed rebates from the pre-war price to be post-war price by both companies. That applies not only to the sub-agents, but also it applies to the dealers who held stocks.

President.—The point is are you satisfied that the consumer has really benefited by the reduction in the prices?

Mr. Gray.—Not to the full extent.

President.—Is he benefited at all?

Mr. Gray.—It is very hard to say.

President.—The cuts have been so rapid that probably the ordinary consumer does not know.

Mr. Tait.—There is no doubt that in a great number of cases the consumer does not benefit, at any rate certainly not to the full extent of the cut.

President.—Yes, in a country like India, that would be a very normal state of affairs when prices move in the opposite direction also. If the price goes up by one anna, the dealer may put it on by 4 annas. That is not very uncommon.

Mr. Cameron.—They are holding the stocks under the impression that the rate war will be over. The middlemen are the speculators. A tremendous amount of oil is being hoarded at the present time.

President.—We have asked you, I think, for the quantities sold since the war. Judging from the quantities already sold and from the imports, it seems to me that there is a tremendous lot of this stuff in stock everywhere.

Mr. Gray.—Yes.

Mr. Cameron.—It is held by speculators.

President.—So that even on the assumption that the Government was in a position to do something for the industry, it would take a considerable time before the measure really became operative. How much is the market holding stocks. According to the figures supplied to us for the 6 months since the war as compared to the previous year, there has been an increase in the total sales and the imports of about 22 per cent., an excess of about 2½ million gallons. If that went on for a few months more, even supposing that anything was proposed by this Board and was accepted by the Government, it would, perhaps, take 6 months.

Mr. Cameron.—6 to 9 months.

President.—Before the prices reverted.

Mr. Gray.—It is the dealers who still control the prices paid by the consumer.

President.—Meanwhile what would the companies do with their production? You must contract your sales if you want the stocks to be disposed of.

Mr. Cameron.—That is the reason why prices are being raised.

President.—That is the reason no doubt, but I want to know how you want to clear the situation. What would you do? Would you reduce your production or would you increase your stocks until the prices become normal?

Mr. Gray.—We should not reduce our production so long as we have available tankage.

President.—We would have an accumulation of stocks which you would have to dispose of.

Mr. Gray.—What would happen is there would be a reduction of imported oil.

President.—It will mean that the imports may have to stop altogether for a few months.

Mr. Gray.—Yes.

Mr. Mathias.—Then you would be in a position to control the market.

Mr. Gray.—Yes.

Mr. Mathias.—Perhaps you might put the price a bit higher.

President.—The position of the Standard Oil Company is that it has no objection whatsoever to restoring the pre-war price. What is your position?

Mr. Gray.—I can quite understand the Standard Oil Company's position. They have had pressure applied to them in order to bring them to terms on the subject of Soviet oil. They will be only too glad if the pressure is released before they come to terms.

President.—I don't know whether that would be a nice way of putting the position to them. They have been charged that they cut prices and they make a proposal that they are willing to raise the prices if you are. If you tell a combatant that he is really running away from the field, then the chances are the war would continue.

President.—I just wish to know—leave out the Asiatic Petroleum Company for the moment—what is your position. Supposing the Standard Oil Company proposed to you to-day "we have had enough of this war.".....

Mr. Gray.—Our position is that we were compelled for economic reasons to do all that the Asiatic Petroleum Company did.

President.—So far as you are concerned, even if the Standard Oil Company said "we must not fight any longer; we must stop this", you would still wish to fight until they came to terms with the Asiatic Petroleum Company.

Mr. Gray.—We are not one of the combatants; we have been brought in as an ally.

President.—You can tell your friends "this will not do any longer; it is time that we stopped this". Are you prepared to do it? The Standard Oil Company people say "we don't want to cut the rates; as a matter of fact we have never cut them; you started cutting; we have had enough of this price war; we have lost a few million pounds. Now let us stop this war". Though you may be willing to stop it, you say, that unless the Asiatic Petroleum Company is willing, you won't do it. It is for you to tell the Asiatic Petroleum Company "why not stop it". I am not suggesting that you should give up your friends or desert your friends. I am only suggesting to you that this is the proposal of the Standard Oil Company in writing here. Are you prepared to put it to the Asiatic Petroleum Company "this is what these people say; let us cry quits and start again"? Are you prepared to do that?

Mr. Gray.—I don't think that they will be prepared to do it.

President.—Who?

Mr. Gray.—The Burmah Oil Company. My principals hope that the result of the rate war will be that the market in India will be in a much more settled condition for many years to come. If they now give in and don't support the Asiatic Petroleum Company in carrying the war through to its conclusion, they will forfeit the hope they have got of profiting at all by this rate war ultimately.

President.—Then, I take it that it is the intention of the companies that they should fight to the bitter end. That is what it comes to. It also means this that the Standard Oil Company has got to go out.

Mr. Gray.—Out from what?

President.—From the market. The position now is that the Asiatic Petroleum Company and the Burmah Oil Company have decided that they must take every bit of trade from the hands of the Standard Oil Company.

Mr. Gray.—The other companies are perfectly willing to come to an amicable arrangement with the Standard Oil Company.

President.—Which other companies?

Mr. Gray.—The Royal Dutch Group.

President.—Not in connection with the Indian market but in connection with some other market?

Mr. Gray.—No, in connection with the Indian market.

President.—We have not heard of that. This is the first that I hear.

Mr. Gray.—I thought it was well known. It appeared in the press.

President.—Appearing in the press is quite a different thing. What I wish to know is if the Standard Oil Company makes a proposal like that, is there any chance of the Burma Shell Group accepting it and acting upon it?

Mr. Gray.—If the Standard Oil Company also meet the Royal Dutch Shell half way.....

President.—That is as regards the Soviet oil.

Mr. Gray.—I do not know what the terms proposed are. But I know terms have been proposed. The only hindrance to stopping this war is the failure of the Standard Oil Company to come to terms with the Royal Dutch Shell.

Dr. Matthai.—As far as you are concerned, the position is this. You had no responsibility for the actual issue that brought about the war. You considered that the war was inevitable and came into it. As long as the war continues—whether it continues or not is a matter between the Standard Oil Company and the Royal Dutch—as long as the war continues, you consider that economic forces compel you to be in the war.

Mr. Gray.—Yes.

Dr. Matthai.—As a result of any independent proposals that may be made by you, there is no possibility of the war terminating. The war is a matter between the Royal Dutch and the Standard Oil Company. If they cannot come to an arrangement between themselves, to that extent the war continues and the economic circumstances of the Burmah Oil Company compel them to be in the war. That is the position as far as you are concerned.

Mr. Gray.—Yes.

Petrol.

President.—I think that the rest of the representation of the Standard Oil Company refers more or less to the Royal Dutch Shell and I don't think I need trouble you about that. As regards petrol, what are your reasons for thinking that the war might extend to petrol?

Mr. Gray.—We understand that the Standard Oil Company have applied for land necessary for installations. We also understand that they have advised their dealers and agents that the supply of petrol would be forthcoming.

Mr. Mathias.—Where have they applied for land for installations?

Mr. Guthrie.—Bombay, Calcutta, Madras and Karachi.

President.—Is that the only ground on which you think that the war might extend to petrol?

Mr. Gray.—If they import petrol into India and sell it, it would displace the indigenous petrol.

President.—Their explanation is rather different. They say that they are waiting for a time when there is a shortage of petrol in India. The position being—I don't think it is ever disputed—there is not very much more petrol available for the demand of India, naturally any prudent company would like to see when the market became available, it was not entirely taken away by somebody else. That is their case. If that is their case really is there a serious danger to the indigenous industry?

Mr. Gray.—When imports are necessitated, there will not be any danger. But if imports take place before they are required, the indigenous petrol will have to find a market somewhere else.

President.—Is there any ground for assuming that they would cut into the petrol market even before it is available? They have not done so up till now and why should they do it in future? Up till now, there has been no import of petrol. You may say that the prices are not remunerative.

Mr. Gray.—I understand that they have announced a certain date—I cannot say from memory what it is—by which petrol supplies will be available and the date will be considerably earlier than the date on which the indigenous supply will fall short.

President.—Can you give us any definite information about that?

Mr. Gray.—I will try and find that out for you.

Mr. Mathias.—In order to undertake the sale of petrol on any considerable scale it is necessary to put in petrol installations, is it not?

Mr. Gray.—Yes.

Mr. Mathias.—Have you any idea how long it would take to put in petrol installations? You must have some experience in the matter.

Mr. Gray.—Personally I had none.

Mr. Mathias.—Your company must have had some experience.

Mr. Tait.—It would take about 6 months.

Mr. Mathias.—Then, of course, it is a question of land acquisition which is always a lengthy process. Perhaps it will take a year or two.

Mr. Gray.—There have been delays in the past. I think that the machinery is now running much more smoothly and it does not take so much time.

Mr. Mathias.—From the time the Standard Oil Company gave orders for starting the installations and the time the installations would be completed, it would be a matter of two years.

Mr. Gray.—No.

Mr. Mathias.—I am speaking not only of the installations but also the land acquisition proceedings.

Mr. Gray.—I think they will probably do it very much quicker.

Mr. Mathias.—What will be the time?

Mr. Gray.—I understand they have acquired land at some ports. I should say about 6 months.

President.—It means that the installation does not require very much machinery. It is very largely a matter of erecting tanks, is it not?

Mr. Gray.—Yes.

Mr. Whitney.—And also pumping machinery.

President.—Even supposing they constructed tanks and pumps and everything was put in, still would you be right in assuming that they would really come into the market before they are due so to speak?

Mr. Gray.—It is impossible to say when they are going to be due. If they are making preparations from now, they would certainly be in a position to do it earlier.

President.—The whole position is this that the Shell group have got their installations here. I am just putting to you their point of view. Supposing it became necessary to import petrol, they can do so at once. In that way, they would feel that the Royal Dutch Shell would be stealing a march over them.

Mr. Gray.—If the Royal Dutch Shell have their installations first, they will have the first right to market their oil.

President.—But they are here for kerosene. That is the position of the Standard Oil Company. I am just trying to put to you their case. They say "They have been interested in one particular kind of kerosene and we are interested in another. Now no petrol is being imported. But if it is going to be imported, why should we allow the Royal Dutch to take possession of that market before we are ready to compete?" If that is their position, so far as this country is concerned, would we be justified in taking any steps which would enable the Royal Dutch group to be first in the market?

Mr. Gray.—I think so, because the Royal Dutch Shell were the first to make preparation and take steps to market their oil.

President.—Why should this country then interfere in that? If the Royal Dutch Shell were an Indian company, I could understand that if they were first in the field, they would be entitled to the market. Assuming that they are not an Indian company, why should India then do anything which would give this other company an advantage over another foreign company? That is what I wish to know.

Mr. Gray.—Because the Royal Dutch Group have already been helping to distribute petrol in India. They have been doing service to the public in India.

Dr. Matthai.—In any case it is rather difficult to make proposals at this stage when we do not know in what quantity or at what price petrol is going to be imported.

Mr. Gray.—There is another aspect of the case and that is that it is the consumer who ultimately pay for any installations in the country. The more installations there are, the more the consumer is going to pay.

President.—In the same way as the Royal Dutch have served the consumer, the Standard Oil Company may well say "we have supplied you with the superior oil at no higher price than the world parity price all these years and we have never interfered with the indigenous industry". That is also an argument.

Mr. Gray.—They have never contributed anything towards the inferior kerosene.

President.—When they contribute inferior kerosene, you resent it.

Mr. Mathias.—You were telling us yesterday that inferior kerosene was not manufactured in any other country and that it could not be imported.

Mr. Gray.—Yes.

Mr. Mathias.—Are there not also rules in the Mining Manuals of Burma prohibiting the acquisition of oil bearing wells by foreign companies?

Mr. Gray.—Yes.

Mr. Mathias.—So that the Standard Oil Company is not in a position to supply inferior kerosene even if they wish to do so unless, of course, they buy it from the Burmah Oil Company.

Mr. Gray.—They can manufacture it if they want to.

Mr. Mathias.—You fix the price at such a level that it will not pay anybody to manufacture inferior oil and import it into the country.

Mr. Gray.—It is the same for the Royal Dutch Shell. It is only through an arrangement with the Burmah Oil Company that they are enabled to get

a better price for their kerosene than the consumer actually pays for it, on the average.

Mr. Mathias.—Have you made any proposal to the Standard Oil Company?

Mr. Gray.—I do not know if any such proposal has been made.

Mr. Mathias.—As regards this particular accusation levelled against the Standard Oil Company, it does seem to me that they have never had a chance of supplying the inferior kerosene. They cannot manufacture it here; nor can they import it because America is so far away and the freight is so much that it will not be a paying proposition to do so.

Mr. Gray.—It is more natural that we should approach a British Company than an American when we make such a proposal.

President.—Most of the oil that you import comes from Java and Sumatra, does it not?

Mr. Gray.—Not all.

President.—Where does the bulk come from?

Mr. Gray.—I cannot tell you off hand.

President.—Does it come from America?

Mr. Gray.—Sometimes it does.

President.—I understood from one of the representations that one of the advantages you claim for the Royal Dutch Shell Group oils is their geographical position. If they don't bring their oil from the nearest oilfield they abandon their geographical advantage, don't they?

Mr. Gray.—They bring some of it from Borneo.

Mr. Tait.—It nearly all comes from Borneo.

President.—How many miles is that from here?

Mr. Cameron.—About 2,800 miles from Calcutta.

President.—Supposing they had to import petrol, would it also come from there?

Mr. Gray.—I could not say that.

Mr. Tait.—It is obvious that it would come from there.

Mr. Mathias.—Now about possible competition in petrol, I don't quite follow your case. Is it that the moment the Standard Oil Company begin to import petrol, the Anglo Dutch will cut their price of petrol in the same way as they have done in kerosene?

Mr. Gray.—No. I anticipate that if they import petrol before it is required, the indigenous industry will have to cut its rates in order to protect itself from being driven out of its market.

Mr. Mathias.—The point of it is to keep off all competition?

Mr. Gray.—So long as we supply the whole demand at prices which are unattractive to importers there will be no competition.

Mr. Tait.—If the Standard Oil Company gives an undertaking that they would not bring petrol into India until the demand is there, that is, until the indigenous supply is shorter than the demand.....

President.—They have made that statement. You cannot ask them to go to a solicitor and give you an indemnity bond! We have been asked specially to give a finding on this issue and therefore it is necessary for us to satisfy ourselves that there would really be any danger that a reasonable man should take steps to guard against.

Mr. Tait.—It has come to our knowledge that agents have been instructed by the Standard Oil Company either by letter or by word of mouth that petrol would be supplied within a short period of time. We know that from our own customers that they intend bringing petrol before the time arrives for imported petrol to come in.

President.—We will ask the Standard Oil Company about that. But if that is merely what the dealers say then that is a thing on which we can

hardly rely. In the bazar things get known before they come into existence; on that you don't seem to act.

Mr. Tait.—Petrol dealers are a different type from kerosene dealers.

Mr. Mathias.—Have you any documentary evidence. That is a matter which the Standard Oil Company must have brought to the notice of their agents by letter?

Mr. Tait.—They may or they may not. Petrol is sold in big markets like Calcutta and Madras and it is easy to get into touch with the agents.

President.—*Mr. Guthrie*, have you issued any circular on that subject giving any particular date?

Mr. Guthrie.—It had been decided that we would go into the petrol business. There was no mention about dates. But we took land in Calcutta and other places. Now, it is going to take at least nine months for the Port Trust to acquire the land and it is going to take another six months after acquisition before we can strike foundation. We have only got up to the point of making original drawings for our buildings. They have gone to New York, but permission from there has not yet been received. I don't bind myself to any time but I can say that it will be at least two years before we can possibly be ready to market petrol to any extent at all.

President.—The whole point is this, supposing the installation is ready in two years' time but there is no market for you, will you still enter the market? We should put it to the Standard Oil Company in that form, whether it is their intention to come into the market when a market is available. If it is their intention merely to come into the market when that is available then there is no cause for thinking that there is danger.

Dr. Matthai.—The information that we had from *Mr. Tait* just now is that it would take a much shorter period than two years, almost immediately.

Mr. Tait.—Our customers gave us to understand that within a month or two petrol would be available from the Standard Oil Company and customers were advised not to hold stocks.

Mr. Mathias.—Yesterday, I think, you said that the indigenous producers of petrol would not be able to meet the demand of the Indian market in two or three years?

Mr. Tait.—Yes, so far as we can see at present.

Mr. Mathias.—So that, if *Mr. Guthrie's* statement is correct, it would perhaps not be unreasonable for a far sighted company to start making arrangements for the installations and so on to be ready in two or three years from now.

Mr. Gray.—The only thing I have to say is that two years is rather a long time to get their installations in order.

President.—Supposing the Standard Oil Company said it would not import any petrol on any considerable scale until there was need for imported petrol, would that be sufficient for your purposes? I do not know what the Standard Oil Company will have to say, but supposing the Standard Oil Company, when we put the question to them, says "We are making these preparations, but these preparations have nothing to do with the indigenous industry, but we won't allow any of these markets to escape us when the time comes, so far as the indigenous industry is concerned would it be satisfied or not? I am putting the case to you from India's point of view. Would not that be sufficient for your purpose?"

Mr. Gray.—We would rather see the trade supplied by an organization in which we have interest than see it supplied by an organization in which we have no interest. We have the necessary tanks, installations and up-country facilities for dealing with the trade for many years to come.

President.—The Burmah Oil Company has itself stated that it is not interested in the petrol business. It simply markets indigenous petrol. It is quite a different thing from importing. That is a different trade altogether.

Mr. Gray.—The Dutch Shell imported petrol would be sold through the Burnah Shell Oil Storage and Distributing Company's existing organisation.

President.—It is a non-dividend paying concern and there is not much stock, but on the other hand it may take up the attitude of neutrality and if the Standard Oil Company undertakes that it will not import any petrol until it has to be imported to meet the country's demand, can you reasonably say that there is any danger?

Mr. Gray.—The chief drawback from the country's point of view is that you are duplicating your selling organization unnecessarily and the country has to pay for it.

President.—Why. Supposing there is competition between you and the Standard Oil Company, the country has not got to pay anything. The country may on the other hand benefit so far as petrol is concerned. At present nobody has come to compete against you, but the whole point is that as this further market arises it may be better for the country to have alternative sources of supply.

Dr. Matthai.—Mr. Guthrie, what you said about Calcutta applies also to Bombay I suppose?

Mr. Guthrie.—Yes.

President.—Mr. Guthrie, I should like you to prepare a written answer when we examine you whether the Standard Oil Company seriously intends that it will not import any petrol into India until the demand of the country requires it.

Mr. Guthrie.—I will.

President.—If that is the position it might perhaps shorten the enquiry so far as that part of it is concerned. Mr. Gray, apart from the question of the Asiatic Petroleum Company supposing the Standard Oil Company makes that statement, I would like you to consider that. I am asking you to consider the question merely as an indigenous industry not as part of the Shell group.

Mr. Tait.—I take it the proposition is that the Standard Oil Company would undertake not to import petrol until such time as the indigenous industry's supply fell short of the demand?

President.—Yes.

Mr. Tait.—I understand it is their case that it is not their intention to import petrol until there is a shortage and that that being so they have no intention of hurting the indigenous industry.

President.—At present there is nothing except the two allegations on the two sides, but on top of that if the Standard Oil Company makes that statement, perhaps, for the time being it may obviate some difficulty.

Mr. Gray.—Are we to have any guarantee that the Standard Oil Company will not wage a rate war with the Royal Dutch Shell Group in order to get a footing in the petrol market in this country?

President.—You would know when the import becomes necessary sooner than they because you know what your resources are. You will always have the knowledge which they won't have. I believe all the companies are present here just now. So far as this preliminary examination is concerned, I don't think we will have to trouble you any more, Mr. Gray, at present. There would be another examination as we said in our communiqué after we have received your statements, but as regards the examination in camera, perhaps, we might take it next week provided we get all the information we have asked for. As regards the other companies, to-morrow we propose to examine the Standard Oil Company at 11 o'clock and we hope to finish them before lunch. After that we shall examine the British Burma Petroleum Company in camera. In camera we do not wish to go into all these general issues, but I am asking the representatives of the companies here whether there are any points connected with the general issue on which they have

anything to say. Mr. Tait, is there anything in connection with which you would like to make any observations? Your case is, Mr. Tait, your company is quite independent of the Burmah Oil Company and of the Standard Oil Company. You have had to follow this rate war, because you could not help it at all.

Mr. Tait.—Yes.

President.—So far as you are concerned, you ask for nothing except that this war should be stopped and that you should not be dragged into it any more.

Mr. Tait.—Yes.

President.—And that while it lasts you require some assistance.

Mr. Tait.—Yes, and in the aftermath. We have suffered very grievously.

President.—You are talking of aftermath. Of course, we will go into that question as fully as time permits. It is really impossible to say how the answers will shape themselves at that time. I think there are two aspects here. First is the immediate effect of the war on the indigenous industry. That is really what we are called upon to enquire into, and incidentally also we have been asked to report on the financial effect of the war on other companies. You have raised other issues which really do not arise out of the terms of reference.

Mr. Tait.—They arise under the terms of reference regarding the financial aspect.

President.—They only arise out of that issue, but not directly out of the terms of reference. The point on which we have got to give our findings are those 3 points and we have got to consider the effect of this price war. As we pointed out, to measure the effect of the price war on the financial position of the various companies is not a very easy task. I am just putting the difficulty to you. I am not expressing any opinion and if the relief that you claim is to extend over a long period, then naturally Government or anybody else would expect us to have at our disposal all the evidence that we ordinarily require. Now all the companies have agreed to give all the information that we want. The whole question arises whether really we would be in a position to make use of that information. I would like the companies to consider assuming that something had to be done to separate the two, that is to say, the temporary from what you may call the permanent relief and then to tell the Board what they require just to be able to carry on until something more definite could be done. Do you understand my point? That is to say, something that would enable the companies to get over the difficulty created by the war.

Mr. Tait.—Our statement of costs will indicate that.

President.—That is to say, without prejudicing your future, I would like to know what is the minimum with which you can carry on. Your information is given on the assumption that the remedies, if any were to be proposed were for a longer period, but supposing that was not feasible, then what would be the minimum that you would require until such time as a case was made out for relief for a longer period. I am not expressing any opinion.

Mr. Tait.—I take it you wish me to put forward an alternative suggestion to one of permanent measure of relief.

President.—The minimum—take a short period, say one year or some such period—that would enable you to tide over the present difficulty until something else is decided. I want the smaller companies to consider that particular point. The Burmah Oil Company is in a different position so far as the temporary relief is concerned, is it not, Mr. Gray?

Mr. Gray.—Yes.

President.—The smaller companies, each one of them had better state their case on that limited issue. Supposing you had taken up some drilling work which must go on under any conditions, that factor must be taken into account. You would eliminate all those items which you could reasonably

THE STANDARD OIL COMPANY OF NEW YORK.

**Evidence of Messrs. W. F. GUTHRIE and V. L. WHITNEY recorded
at Rangoon on Friday, the 27th April, 1928.**

Introductory.

President.—Mr. Guthrie, are you the principal manager of the Standard Oil Company of New York in India?

Mr. Guthrie.—Yes.

President.—And Mr. Whitney?

Mr. Guthrie.—He is my assistant.

Dr. Matthai.—Have you any jurisdiction outside India?

Mr. Guthrie.—Yes, in Ceylon, part of Africa and the Persian Gulf.

President.—That is more or less near East.

Mr. Guthrie.—Yes.

President.—How long have you been in India?

Mr. Guthrie.—Since 1915.

President.—The Standard Oil Company of New York has been doing business in India for how many years?

Mr. Guthrie.—Thirty-five years.

President.—That is, from about 1893.

Mr. Guthrie.—Yes.

President.—When was the Standard Oil Company itself constituted?

Mr. Guthrie.—I do not know.

Dr. Matthai.—You say that you have been doing business in India for the last 35 years. Were you the whole time operating as the Standard Oil Company of New York?

Mr. Guthrie.—No, at first we were operating as the original Standard Oil Company. After the United States Government dissolved that, this company became the Standard Oil Company of New York and is doing business in this country under that name.

Dr. Matthai.—That is, since 1912.

Mr. Guthrie.—About 1912.

President.—Is this Company connected with the former members of the Standard Oil Company which was dissolved?

Mr. Guthrie.—Not at all.

President.—Has it any understanding with the Standard Oil Company of New Jersey?

Mr. Guthrie.—That is one of the units. But there is no connection whatsoever.

Mr. Mathias.—It has been dissolved into its constituent units.

Mr. Guthrie.—Yes.

Dr. Matthai.—There is no kind of community of interest.

Mr. Guthrie.—None at all.

President.—Which do you consider is the biggest unit?

Mr. Guthrie.—The Standard Oil Company of New Jersey.

President.—Do you come after that?

Mr. Guthrie.—Yes.

President.—Your business has been confined entirely to the superior kind of kerosene oil.

Mr. Guthrie.—Yes, and some lubricating oils.

Mr. Mathias.—Have you had any connection with the Vacuum Oil Company?

Mr. Guthrie.—Not at all. They are a separate unit altogether.

President.—What is the general policy of the Standard Oil Company of New York as regards the indigenous industry? How far do they propose to cut into the Indian market? That is what I wish to know.

Mr. Guthrie.—We tried to make it quite plain in our statement that we were after what business we could get of the imported oil. We have never attempted to obtain any of the indigenous business.

Mr. Mathias.—You have been dealing in oil now for a very long time in India.

Mr. Guthrie.—Yes.

Mr. Mathias.—Have you had any sort of arrangement with the Anglo-Dutch or the Burmah Oil Company? I don't mean any formal arrangement but an understanding.

Mr. Guthrie.—Nothing except that we would follow their prices.

Mr. Mathias.—There was a distinct understanding on that point.

Mr. Guthrie.—There was an understanding. If they changed their prices, they would telephone to us and tell us that they had put their market up or down. They would give me time to cable my people in New York and ask for their permission to put our prices up or down.

President.—Are you referring to the Royal Dutch?

Mr. Guthrie.—To the pool, that is both the Burmah Oil Company and the Royal Dutch.

President.—Have you had any arrangement in this part of the world in the matter of fixing prices?

Mr. Guthrie.—None whatever.

Dr. Matthai.—When you say your policy has been to secure only such part of the Indian trade as the indigenous production cannot meet, is that because you followed it deliberately as a matter of policy or because you could not help it?

Mr. Guthrie.—Yes, deliberately.

Dr. Matthai.—If the indigenous companies had not organised a combine or pool in order to preserve their position in the market, was not there a possibility that you might have tried to cut into the increasing demand of the market?

Mr. Guthrie.—No.

Dr. Matthai.—That is absolutely certain.

Mr. Guthrie.—Yes.

Superiority of Standard Oil Company's Kerosene.

Mr. Mathias.—Your superior kerosene is of a different quality to the superior kerosene produced in India?

Mr. Guthrie.—We think so. We think that it is better.

President.—In the trade, how is it known—125 degrees or what?

Mr. Guthrie.—It is made to specification.

Mr. Mathias.—What is the flash point?

Mr. Guthrie.—125°.

President.—What is the flash point of the indigenous oil?

Mr. Guthrie.—I do not know.

President.—In fixing your prices I take it that you would also be guided by world parity prices to the extent to which the pool would be guided. Is that right?

Mr. Guthrie.—Yes.

Dr. Matthai.—Of course you get a slightly higher price on account of your quality.

Mr. Guthrie.—Yes, in many markets.

Dr. Matthai.—It ranges at present roughly between 4 and 14 annas.

Mr. Guthrie.—We claim that. We believe we are correct. In every market in India we are being undersold from 4 to 14 annas per unit either by rebates or by open cuts.

President.—What was the difference before?

Mr. Guthrie.—There was no difference except here and there of an anna or two which the agents would get.

Dr. Matthai.—The point is this. Now that the war rates are in force, there is a difference between your prices and the pool prices of 4 to 14 annas. If as you say your oil is superior in quality to the Indian superior oil, then quality for quality prices would be the same at this difference.

Mr. Guthrie.—Yes.

Dr. Matthai.—That is to say, if you are selling at Rs. 5, considering the superiority of your oil, the Indian oil, in order to get a place in the market, must sell at something less.

Mr. Guthrie.—It might be, but they have so many advantages which we have not got. For instance, we have no low grade oil and we have r.o petrol.

Dr. Matthai.—Apart from these factors, there is force in that argument, is there not?

Mr. Guthrie.—There is, because that has reference only to marketing. We believe in our product and we talk our product.

Mr. Mathias.—What is the name of your brand?

Mr. Guthrie.—The "Elephant" brand is the principal brand which is known all over India and the "Monkey" brand is well known in South India.

President.—Will you please give us a statement showing the cuts made by you in your prices from the beginning of the war?

Mr. Guthrie.—On the 23rd September our competitors made a reduction of Re. 1 in Bombay and they followed it the next day by another 4 annas, thus making a total cut of Rs. 1-4-0.

President.—That was in Bombay.

Mr. Guthrie.—Yes, in Bombay only. After that, they went on making cuts daily by one anna or two annas and thus brought the cuts up to a total of Rs. 2-8-0.

President.—I want to know the dates on which you went on reducing your prices.

Mr. Guthrie.—I have not got those dates with me. After the first cut of Rs. 1-4-0 which was an open cut, the rest was all done in the shape of rebates by other people. As we lost our position in the market, we learnt all about the rebate or the allowance or the bonus. All these things amounted to as much as Rs. 2-8-0, and then we stopped. We did not sell one gallon under that.

Dr. Matthai.—When was that?

Mr. Guthrie.—About a month or six weeks after the war started in Bombay.

Mr. Mathias.—Where did you make most of your sales?

Mr. Guthrie.—In Karachi area we have the largest percentage.

Mr. Mathias.—Is your market there very much in excess of last year?

Mr. Guthrie.—Probably about the same.

Mr. Mathias.—Which is your smallest market?

Mr. Guthrie.—Madras for percentage.

Mr. Mathias.—What about Calcutta?

Mr. Guthrie.—Madras and Calcutta are about the same percentage.

President.—That is to say where you are further away from the headquarters of the Burmah Oil Company, your market is bigger; that is what it comes to.

Mr. Guthrie.—The people of Northern India have always used more high grade oil. They have never used low grade oil in such large percentage.

President.—The Burmah Oil Company cannot get their oil so easily there.

Mr. Guthrie.—It is imported into Karachi.

President.—At the beginning you were nearer those markets than the Burmah Oil Company.

Mr. Guthrie.—That might be.

Dr. Matthai.—You don't sell at all in Bombay.

Mr. Guthrie.—We sell a small percentage of the total.

Dr. Matthai.—You sell less in Calcutta and Madras and the bulk of your sales are made in northern India.

Mr. Guthrie.—The Karachi area is a very small market in volume compared with the rest of India.

President.—Will you please give us your import figures for the last two or three years for the different ports? You have only given us the total.

Mr. Guthrie.—I will send them to you.

The rate war.

Mr. Mathias.—The war has not been entirely confined to Bombay.

Mr. Guthrie.—No. The next place was Karachi and then of course Calcutta and Madras. They first told us in New York that as soon as the Russian oil arrived in India prices would be cut by one rupee and they kept their promise as far as Bombay was concerned. When the cargo reached India, they began to cut the prices and within a day or two they made a cut of Rs. 1-4-0 at the various ports, viz., Calcutta, Madras and Karachi.

President.—One of the circular letters you have given is from the Asiatic Petroleum Company, dated the 21st September, 1927. That is the earliest you have been able to give us and is marked No. 1. It shows that this cut was to take place probably when the oil was on the high seas.

Mr. Guthrie.—As soon as it arrived. It was due to arrive on the 23rd September, 1927.

President.—Did it arrive on the 23rd September?

Mr. Guthrie.—Yes.

President.—When did your company first have the intimation?

Mr. Guthrie.—Four days ahead of that.

President.—That was in New York.

Mr. Guthrie.—Yes, and they cabled me.

President.—That was the first you heard.

Mr. Guthrie.—Absolutely.

President.—Have you been able to get us any information as regards what took place before the 23rd September between your Company and the Royal Dutch Shell Group? That is very important. You remember that I asked Mr. Gray the same question as to what had taken place before the cuts became operative between themselves and the Royal Dutch?

Mr. Guthrie.—Do you mean do I know what took place between them?

President.—Between your Company and the Royal Dutch Company?

Mr. Guthrie.—Only that their New York representative notified our New York office verbally that they would cut the prices in India.

President.—That fact was published in your Director's circular. That does not explain what really led to the war.

Mr. Guthrie.—I do not know except what is contained in that circular.

President.—It is rather important. We do not wish to go into this controversy over the Soviet oil. That is the reason given by the Royal Dutch Company and I take it that it has been adhered to in their subsequent declaration. But we should like to know what the relations were between the Standard Oil Company and the Royal Dutch Shell Group just before the outbreak of hostilities. If it was merely that there was some trouble over the Soviet oil and nothing more, we could understand it.

Mr. Guthrie.—I think there was nothing else.

President.—Could you tell us what was the position of the Royal Dutch Shell Group and yourselves as regards the Soviet oil just before this quarrel?

Mr. Guthrie.—That is all in the Director's statement. I know nothing more than that.

President.—That we know also. According to what you have stated and what has been stated by the other party, both of you were carrying on negotiations with the Soviet Government for the purchase of oil, and something happened which led to the withdrawal of the Royal Dutch Shell Group. Then apparently you pursued the negotiations further and put through this contract. That was as far as we can see what led to the quarrel.

Mr. Guthrie.—That is all I know.

President.—Can you throw some light on this point as to what led to this breaking up of negotiations between the Royal Dutch Shell Group and the Standard Oil Company?

Mr. Guthrie.—I don't know.

President.—Would you be able to give us the price at which your company has purchased the oil from the Soviet?

Mr. Guthrie.—I have already given it in the telegram that I submitted before the Board.

Dr. Matthai.—Your statement here is that your Russian contract is based on f.o.b. Gulf price. Can we take it that this statement means that under your Russian contract you get your supplies of oil delivered at Batoum whatever happened to be the Gulf port f.o.b. price at the time?

President.—Is it your contention that so far as you are concerned you pay to the Soviet the same price as you pay for the American oil at the Gulf ports?

Mr. Guthrie.—Yes.

President.—And your saving so far as this market is concerned consists of the saving in freight?

Mr. Guthrie.—I think so.

Dr. Matthai.—When was this contract made?

Mr. Guthrie.—Either in the latter part of 1926 or the first part of 1927.

Dr. Matthai.—What was the Gulf port f.o.b. price at the time?

Mr. Guthrie.—I have already given it to you.

President.—There is a rise and fall clause in it. I mean the price depends on the variation in the Gulf prices, isn't that so?

Mr. Guthrie.—No. It is a flat price. At that time that was the basis of the calculation.

President.—It is rather important for us to know what that price was.

Mr. Guthrie.—I have attempted to get it; I have tried to explain in every way possible the necessity for it but that is all their answer.

Dr. Matthai.—You give here the New York price in 1927 as 5 cents to 8 cents. Within that big margin there is a lot of room for variation.

Mr. Guthrie.—That is so.

Dr. Matthai.—Your New York price is half a cent. higher than the Gulf price, and therefore when the New York price is 5 cents the Gulf price is 4½ cents?

Mr. Guthrie.—Yes.

Dr. Matthai.—Assuming that at the time the contract was made the Gulf f.o.b. price was 4½ cents, then do we understand that all your supplies during the next three years under this contract you would get at 4½ cents at Batoum?

Mr. Guthrie.—Yes, as far as I know. But about half of our supplies comes from the United States of America.

President.—Can you tell me whether the statement that you have purchased 150,000 tons a year for three years is correct?

Mr. Guthrie.—My impression is that it is. I have never seen the contract.

President.—Would not your company supply you with all this information?

Mr. Guthrie.—I don't think so.

President.—Of course you can only give us such information as your company supplies you with but I am trying to point out that if on a material point information is not given to us there is a certain amount of risk of our not getting at the correct estimate.

Mr. Guthrie.—I am afraid we will have to take that risk.

Dr. Matthai.—You are not in a position to contradict that there is a further contract?

Mr. Guthrie.—I can't contradict that. I don't know.

Dr. Matthai.—This statement of the Indian oil companies has not been publicly contradicted.

President.—What about this additional contract for 60,000 tons?

Mr. Guthrie.—I know nothing about it.

President.—These statements have been made and if the Standard Oil Company does not contradict them in any way, then if we thought it necessary to act upon them there is nothing to prevent us from doing so. There is the further implication that there is possibly some arrangement by which this price of 5 cents is liable to further reduction. If you do not deny that after the company's attention has been drawn to it not only by the Indian companies but by this Board, I would say that we should be bound to act upon it—if I were to speak as a lawyer. Whether as a Board we should do so, we do not know.

Dr. Matthai.—On the question of price, you have given us some figures and say that the Russian contract is based on f.o.b. Gulf port prices. Are you in a position to contradict the statement of the Indian companies that the price may be anything less than 5 cents?

Mr. Guthrie.—I cannot contradict that.

President.—You get your instructions practically when the Company at New York finds it necessary to give them, so that you are not in a position to advise us how long this state of affairs is likely to continue from the point of view of the Standard Oil Company?

Mr. Guthrie.—We are not cutting prices.

President.—Quite so, but it is merely a sort of armistice.

Mr. Guthrie.—We are being undersold from 4 to 14 annas in every market in India. In every market in India our price is back to the original reduction of Rs. 1-4-0 with the exception of Bombay. I heard when I left Calcutta about a week ago that the average reduction was Rs. 1-10-0, in the Bombay area.

Mr. Mathias.—Have your sales been much affected?

Mr. Guthrie.—It has been reduced by 2 per cent.

President.—That is not going to break the Standard Oil Company.

Mr. Guthrie.—No.

Dr. Matthai.—The position I would like you to meet is this. There is this contract made by your company with regard to Russian supplies. The information that the Indian companies had was that you were getting it at a price which was lower than happened to be the world parity price at the time and this supply was coming out to India. The Indian oil companies naturally

felt that this oil that you were able to get at an uneconomic price might very probably be sold in India at an uneconomic price, and in order to make their position strong, if it came to that, they anticipated that fall by cutting the prices. Who started it might not be very material. So that it does seem to me that it is up to you to make a definite statement as to the price at which you get your Russian supplies.

Mr. Guthrie.—I am very sorry but I cannot get that information.

President.—When the Standard Oil Company was given this ultimatum on the 19th September did your company give you any instructions as to what you were to do if the ultimatum was carried out?

Mr. Guthrie.—Yes. They authorized me to meet that cut if it was made and no further.

President.—But you had no instructions that as soon as the Soviet oil arrived you were to make a cut?

Mr. Guthrie.—No.

President.—What would have happened if this cut had not been made?

Mr. Guthrie.—We would have made more money.

Mr. Mathias.—Supposing you had not reduced your price at all would you have lost a considerable portion of your trade?

Mr. Guthrie.—Yes. You will see from our statement of our business how we practically went out of business during the war when the United States Government took over all our tankers and we could not send any oil to India.

Mr. Mathias.—Perhaps you consider this price war as a blessing in disguise.

Mr. Guthrie.—We have a stake in the market. We have been in the market for 35 years. We have built up a reputation and when we came back we could still sell our oil.

President.—Might not this be due to the fact to some extent at any rate that the cuts made by the pool has not necessarily resulted in the reduction of price in the market. The pool may have cut the price by Rs. 1-4-0 but the dealers and others in the market may not have given effect to that and to that extent their real price may be somewhat higher than the normal price.

Mr. Guthrie.—That does not apply to Rs. 1-4-0 because it was open. But all the rebates and bonuses never reach the consuming public and that is why there is poor marketing. We never give bonuses, we never give rebates because it is the poorest kind of marketing as the consumer does not get the benefit; it is the middleman who gets the benefit. That is the reason why we lost only 2 per cent. of the market.

President.—They may not retain it very much longer. Supposing you lose 2 per cent. now, as soon as the market gets broken up more or less and all this excess oil which the dealers have is put into the market, then that would be the time to realize how much business you have lost.

Mr. Guthrie.—We expect to lose more of the business but our agents are not over stocked nor are the dealers who buy from our agents. I think the opinions expressed are largely exaggerated.

Mr. Mathias.—You don't subscribe to the view which has been put forward by the Burmah Oil Company that if the Anglo-Dutch cut their prices it is an absolute economic necessity for the indigenous companies to follow?

Mr. Guthrie.—I don't.

Mr. Mathias.—What are your reasons for not agreeing to that?

Mr. Guthrie.—Every concern has got certain brands in the trade. When you build up business you build it up on the reputation of your brands and on your integrity. We have got as agents numerous families who have been our agents since we first came into India. That has built up our business.

Mr. Mathias.—Your view then is that the agents and dealers for the indigenous oils would have continued to take indigenous oil even if there was no cut in price?

Mr. Guthrie.—To a certain extent yes.

President.—This is rather an important point. Supposing the Royal Dutch Shell Group from their point of view wanted to teach you a lesson in morality, then if it has only been able to cut into your market to the extent of 2 per cent. the lesson has yet to come and perhaps it will take some time before it is brought home to you?

Mr. Guthrie.—Quite so.

President.—In that case the war may be continued till the one or the other gets exhausted?

Mr. Guthrie.—No. We would restrict our deliveries.

President.—Are you prepared to give it up without a fight?

Mr. Guthrie.—We have given it up already. In effect we are restricting our deliveries by keeping up our prices by 4 to 14 annas.

President.—Supposing this group is not able to capture your market and finds it necessary to continue the war, will your company then withdraw from the fight or what would it do?

Mr. Guthrie.—That is beyond me to answer.

President.—You know what the Royal Dutch Shell group has said so far?

Negotiations.

Mr. Guthrie.—They are negotiating all the time. One of their last offers was that we should give the Anglo-Persian Oil Company one-third of our Russian contract and give the Royal Dutch Shell Group the other third and keep a third of it ourselves and we would pay the so-called former owners 5 per cent. on the f.o.b. price.

President.—First of all you are to give to the Royal Dutch Shell Group $\frac{1}{3}$ rd of the oil that you have purchased from the Soviet.

Mr. Guthrie.—At the f.o.b. cost Batoum.

President.—At your contract price.

Mr. Guthrie.—Yes and $\frac{1}{3}$ rd to the Anglo-Persian Oil Company. That is the daughter of the Burmah Oil Company.

President.—That daughter is to get $\frac{1}{3}$ rd at the same price.

Mr. Guthrie.—Yes.

President.—And then?

Mr. Guthrie.—We get $\frac{1}{3}$ rd and in addition we are to pay 5 per cent. to the supposed former owners of the Russian oil.

President.—5 per cent. on what.

Mr. Guthrie.—On the f.o.b.

President.— $\frac{1}{3}$ rd is left to you.

Mr. Guthrie.—Yes.

President.—That doesn't seem to be so bad.

Mr. Guthrie.—It is only negotiations are going on. That is the latest news we have.

President.—I hope they will materialise.

Mr. Guthrie.—I hope so.

Mr. Gray.—I understand the other companies too similarly contribute to the compensation fund.

President.—The Anglo-Persian Oil Company is the other.

Mr. Gray.—I understood that the Standard Oil Company was not the only Company which contributes to the compensation fund.

Mr. Guthrie.—May be I don't know.

Dr. Matthai.—What is your reading of the present situation? Have the prices now reached bedrock or do you think that there would be again reductions?

Mr. Guthrie.—I don't think so.

Dr. Matthai.—They are not likely to go further.

Mr. Guthrie.—No.

Dr. Matthai.—The upward trend has started.

Mr. Guthrie.—Yes.

President.—Do you mean that 5 per cent. was to be contributed by all the three companies?

Mr. Gray.—That applies to the present.

President.—One of the companies is to get compensation. I really do not understand. It looks as if the Royal Dutch group was going to take 5 per cent. According to what has been said it was the Anglo-Persian Oil Company and the Standard Oil Company that should really make a contribution of 5 per cent. on the 3rd. Is that what you mean Mr. Gray? If the Royal Dutch itself gets 3rd, it is a mere formality.

Mr. Gray.—They all contribute to the compensation fund.

President.—Only 3 companies are mentioned; The Royal Dutch Shell Group which has got a claim against the Soviet, then the Anglo-Persian Oil Company and the Standard Oil Company. If the Royal Dutch Shell Group itself contributes 5 per cent. it doesn't pay anybody.

Mr. Gray.—There are several other companies who benefit by the compensation fund.

President.—Do you mean besides the Royal Dutch Shell Group, there are other companies interested in the Soviet Russian oil?

Mr. Gray.—Yes.

Dr. Matthai.—Is there any other country where a rate-war is being waged?

Mr. Guthrie.—I don't know. I am so far away that I am not familiar with the rest of the world. I hear rumours that prices in China are very low.

Dr. Matthai.—Is there no other rumour that you have heard?

Mr. Guthrie.—None at all.

President.—Is it the intention of the Standard Oil Company to bring this Soviet oil only to India or to take it anywhere else?

Mr. Guthrie.—In Europe they are selling in Turkey, Greece and in other countries.

President.—What I want to know is, is your company sending any of this Soviet oil to any other country?

Mr. Guthrie.—Yes, in South East Europe.

Dr. Coggin Brown.—Mr. Guthrie, have you got any idea as to how far this importation of Soviet stuff is due to overproduction in South East Europe and other fields in America? Supposing you had not had that colossal overproduction that you had lately in the Texas fields, would this have happened or not?

Mr. Guthrie.—It would have happened just the same.

Dr. Coggin Brown.—In any case.

Mr. Guthrie.—Yes, because we are very large producers both in the gulf and all over the country. We do a world wide business. We do not produce what we require.

Dr. Coggin Brown.—Even with the present overproduction.

Mr. Guthrie.—We must however buy from other refineries from United States of America or from Russia. A very large percentage we buy on a pure business basis.

President.—Mr. Gray, has any Anglo-Persian oil come into this country yet?

Mr. Gray.—I think so.

President.—Was it in considerable quantities?

Mr. Gray.—I am afraid I cannot give you the quantities. I shall have to make enquiries.

President.—Would you be able to get me the quantities of oil that is imported from countries other than America by the Burmah Oil Company and the pool?

Mr. Gray.—Yes.

Dr. Matthai.—Do you import into India from Dutch East Indies?

Mr. Guthrie.—No.

Dr. Matthai.—Have you any interest in Java?

Mr. Guthrie.—No.

Dr. Matthai.—None at all.

Mr. Guthrie.—None at all, but the Standard Oil Company of New Jersey has.

President.—Can you give us your method of working out world parity prices?

Mr. Guthrie.—I don't work them.

President.—You don't work them.

Mr. Guthrie.—I have no authority to sell except on the prices which the New York Office tells me to sell.

Dr. Matthai.—You get a quotation.

Mr. Guthrie.—I don't make any figures at all. My instructions are to sell at the competitors high grade rates and not to vary in any way. I am not allowed to give a rebate or bonus or any allowance. Every time the price goes up or down, I must cable to New York, tell them and ask for instructions. That is all I am interested in.

President.—You sell to your agents and sub-agents, I take it, at some *ex* installation price.

Mr. Guthrie.—Yes, *plus* freight.

President.—*Plus* what freight?

Mr. Guthrie.—*Plus* railway freight.

Mr. Whitney.—We have a bulk base price free on rails, that is at main installation.

President.—You have got installations at 4 ports.

Mr. Whitney.—Yes. We have a bulk price and to that we add mainly the railway freight and that is the price at the destination to the sub-agent. From that gross amount he gets a commission of 3 annas per unit of 2 tins or 8 gallons.

President.—That comes out of that price.

Mr. Guthrie.—Yes. That price is the price at which pool is selling.

President.—That was the pool's price.

Mr. Guthrie.—We take always the pool's price.

Mr. Mathias.—Does the Standard Oil Company of New Jersey import oil into India?

Mr. Guthrie.—No, except "Flit."

President.—What about the fuel oil? Are you interested in that?

Mr. Guthrie.—Not at all.

President.—It is rather unfortunate that you are simply limited to your instructions from New York. You are not able to give us any more information than you have already given.

Mr. Guthrie.—That is all.

President.—Which I think is rather a pity.

Dr. Matthai.—The position is this that you seem by your silence to acquiesce in practically all the allegations.

Mr. Guthrie.—I don't acquiesce, because I don't know and I can't find out. What can I do?

President.—It is not for us to say more than that. The Standard Oil Company has noticed what is going on here. If it does not choose to come forward and give an explanation, what can we do?

Mr. Guthrie.—We have nothing to explain. We have cut no price. We put all our cards on the table.

President.—It is admitted that they cut the price, but that does not carry us any further.

Mr. Guthrie.—That is all the assistance I can give.

President.—Supposing there is an imminent war between yourselves and somebody else, why should you allow them to throw the first shell in your camp? You would like to have the first shot and turn them out. There is nothing at all in that. What we wanted to know from the Standard Oil Company was what preceded the outbreak of hostilities and on that point you simply said that the Royal Dutch Shell Group cut the prices.

Mr. Guthrie.—In this connection the Index may be of some help to you (handed in).

Dr. Matthai.—I don't know if you can give any information about this. An allegation has been made that the Standard Oil Company of New Jersey has disapproved of the Russian contract. Could you give me any idea on what grounds they have objected to it.

Mr. Guthrie.—I only know what I have seen in the newspapers. I don't know anything more.

President.—Are there any articles which have been written in responsible oil journals that you can put us on to?

Mr. Gray.—I shall have to look up.

Mr. Tait.—We can give quite a number of them.

Dr. Matthai.—You have not advanced your case any further this morning.

Mr. Guthrie.—I am sorry.

President.—What about this suggestion made by Mr. Gray that this inferior oil is a thing that no other country in the world does manufacture and can sell at the same price as the pool.

Mr. Guthrie.—I have shown that they brought two very large cargoes from California.

President.—Can you tell us whether that was sold at the same price as the very inferior oil?

Mr. Guthrie.—It was called imported Swan and sold as Swan. It is their low grade oil.

President.—Was that within 195,000 tons?

Mr. Guthrie.—I don't know.

Mr. Mathias.—Was it sold as pure imported oil or mixed and sold?

Mr. Guthrie.—I think it was sold as pure imported oil.

Mr. Mathias.—Was it sold as white oil?

Mr. Guthrie.—No, that is a red oil.

Mr. Mathias.—Would it pay the Standard Oil Company to manufacture red oil in the United States and bring it out here?

Mr. Guthrie.—I think so.

Mr. Mathias.—Even with the heavy freight on.

Mr. Guthrie.—Yes.

Mr. Mathias.—Why have you not done so?

Mr. Guthrie.—To protect the indigenous industry.

Mr. Mathias.—Was it on account of consideration for the local industry that you didn't do it?

Mr. Guthrie.—As a pure marketer I would have done it, but new York office has always taken up the attitude that as long as it is produced in Burma and in India in sufficient quantities, it should not be done.

Mr. Mathias.—So that all the oil companies have got high moral principles.

Mr. Guthrie.—Yes.

President.—I do feel that the Standard Oil Company has not assisted us as we expected in this matter. We made ourselves perfectly clear when we started these proceedings that we would like to have all the information that was relevant. We also gave an undertaking that we would treat your information as confidential. As you know, the Burmah Oil Company is not really an applicant in this case, and yet it has agreed to give us all the information we wanted in order that the enquiry should be helped.

Mr. Guthrie.—We are not applicants; we are not asking for anything.

President.—The position is this. The Standard Oil Company does not seem to have realised that if we found that we were not in a position to say what the policy of the Standard Oil Company was and how it was dictated, we might assume that what the Burmah Oil Company and the pool said was true and might make proposals which would be entirely to the disadvantage of the Standard Oil Company. Apart from that, the Standard Oil Company has been doing business for so many years in India and might have seen its way to help an enquiry which has been ordered by the Government of the country. This is not an enquiry conducted by any private authority. I do feel that the Standard Oil Company has not co-operated with the Government of the country in this respect. We have had another case in which another company which is operating in this country very courteously supplied us with all the information we required in another enquiry. The Standard Oil Company cannot take up this attitude "this is all our representative in India knows and this is all we are in a position to give". I do not know whether you have explained to the Standard Oil Company what the position of the Board is.

Mr. Guthrie.—I explained it fully to our office in New York.

President.—I cannot say anything more than that. If we had the authority to compel you to give evidence, we should have exercised it undoubtedly. The Board feels that it has not been treated as candidly as a public body enquiring into a public question. We offered the company that we would keep every information that was given to us as confidential and even under that condition the Company has not supplied us with any information. It simply means this that the Standard Oil Company which of course from our point of view and from the country's point of view is a foreign company is not prepared to trust this Board with the information. I have had to speak out my mind in this way because we do really feel it.

Mr. Guthrie.—I am very sorry.

President.—I am not blaming you in any way. I wish you to convey to your Company that this is the view I have expressed this morning and that if the company does not wish to assist us, it will have to take such consequences as may follow.

Mr. Guthrie.—That is quite true. I shall communicate to our office in New York what you have said just now.

President.—You have been present throughout this enquiry. You know that that was the attitude adopted by the Burmah Oil Company in the beginning. Since then, they have very courteously offered us all the information we want though they say that they are not interested. But you are interested in the enquiry to this extent that if the proposals that are made by the indigenous companies are accepted by Government, they may not be to your advantage at all.

Petrol.

As regards petrol, can you tell us what your instructions are?

Mr. Guthrie.—The instructions are that we are to make an application to New York for sufficient money to erect plants at the four main installations.

President.—That is a sort of budget provision.

Mr. Guthrie.—Yes, and in the meantime we are to secure property which we are working on. But we have got it only in one place definitely.

President.—Where is that?

Mr. Guthrie.—In Madras.

President.—On the foreshore I take it?

Mr. Guthrie.—Not on the foreshore. At Budge Budge, the Port Commissioners of Calcutta are trying to acquire property for us and in Bombay they are doing the same.

President.—Who are doing the same?

Mr. Guthrie.—The Port Trust are acquiring it for us. In Karachi, the land will have to be reclaimed from the sea. Nothing has been done on that yet. So, in the meantime our Engineering Department are drawing plans for the installation. When these plans are drawn, they will be sent to New York for approval and eventually they will be approved and we will commence work.

President.—Have you made any estimates?

Mr. Guthrie.—Estimates are being made now.

President.—You heard what Mr. Tait said yesterday, didn't you? He said that they had information from their dealers that you had told your agents that at some not very distant date you would be in a position to supply petrol to them.

Mr. Guthrie.—We will not be.

President.—Have you told them?

Mr. Guthrie.—We have hundreds and hundreds of inspectors and salesmen and I cannot say what they have told them.

President.—The point is have you received any instructions from New York to tell your inspectors anything?

Mr. Guthrie.—No.

President.—Have you yourself given any instructions to your inspectors?

Mr. Guthrie.—Only that we are eventually going into the petrol business.

President.—Eventually may mean anything.

Mr. Guthrie.—Yes, it may mean anything. As far as I know, no one has ever mentioned any date because we cannot.

Dr. Matthai.—What is the earliest time at which you expect to land petrol in India?

Mr. Guthrie.—Say two years; it might be a few months less. It looks to me to be almost hopeless to get everything ready before that date.

Mr. Mathias.—In Madras you have actually acquired the land.

Mr. Guthrie.—Yes.

Mr. Mathias.—In no other place have you acquired land?

Mr. Guthrie.—No.

Mr. Mathias.—In other places, the land acquisition proceedings are going on.

Mr. Guthrie.—Yes.

Dr. Matthai.—If you have got land in Madras, you ought to be able to get their sanction sooner than two years.

Mr. Guthrie.—No, because we are going to erect all the plants at the same time.

Dr. Matthai.—It would not take such a long time as two years, would it?

Mr. Guthrie.—We are going to standardise everything and it will all be done at one time. We may gain a month or two in some place; that is all.

Mr. Mathias.—Have you any idea as to when you are likely to take possession of the land in Bombay and Calcutta?

Mr. Guthrie.—Say in about 9 months.

Mr. Mathias.—Though the land acquisition proceedings are going on, under the Land Acquisition Act, you can take early possession, is not that so?

Mr. Guthrie.—I do not know. The Port Commissioners of Calcutta gave us to understand that it would take so much time before they could acquire the property.

Mr. Mathias.—Where is that?

Mr. Guthrie.—At Budge Budge.

Mr. Mathias.—What is the position in Karachi?

Mr. Guthrie.—There is nothing settled yet. We are only discussing terms.

Mr. Mathias.—In Bombay?

Mr. Guthrie.—I think it has gone a little further. When I left Bombay, they had agreed about the site and everything.

Mr. Mathias.—When are you likely to take possession of the land?

Mr. Guthrie.—I do not know but I think it will take some months.

Mr. Mathias.—Would it be 4 months?

Mr. Guthrie.—I should think so.

President.—Can you give me any idea as to the capacity of these installations?

Mr. Guthrie.—There would be two 90 ft. tanks.

President.—How many gallons would each tank hold?

Mr. Guthrie.—Two million gallons in each tank or 4 million gallons at each port.

Mr. Mathias.—On the whole it will be about 20 million gallons.

Mr. Guthrie.—No. That will be our storage capacity, but we will not keep these tanks full.

President.—I suppose you will have to have some factory for making tins.

Mr. Guthrie.—Yes, it will be a complete new installation. We have to build it.

President.—It is a very simple installation.

Mr. Guthrie.—We have to erect entire new plants.

President.—As far as machinery is concerned, it is very simple.

Mr. Guthrie.—It is no simpler than an oil plant.

Mr. Mathias.—You don't propose to make tinplates.

Mr. Guthrie.—No, we will make only tins.

President.—What is the proportion between oil sold in bulk and in tins?

Mr. Guthrie.—It varies so widely. For instance, in Bombay it is 50 per cent. bulk; in Calcutta it is 33½ per cent. and in Madras it is 40 per cent.

President.—When you sell oil in bulk, how does a man take it?

Mr. Guthrie.—In drums.

President.—Of how many gallons?

Mr. Guthrie.—4 Imperial gallons.

President.—Is that what you call bulk?

Mr. Guthrie.—Yes.

President.—Haven't you got bigger containers?

Mr. Guthrie.—We have 42 gallon barrels and we ship in railway tank wagons.

President.—But kerosene generally is sold in tins. You have not got pumps for kerosene as you have in the case of petrol.

Mr. Guthrie.—No.

President.—In the retail business they may buy a barrel and sell it. Does that apply to your oil?

Mr. Guthrie.—No.

President.—Yesterday you must have heard me telling the indigenous industry that your Company had stated in its representation that it had no intention of importing any petrol until there was a demand which the indigenous industry could not supply. I just want to know what your position is.

Mr. Guthrie.—To start with our estimate is that India in 1927 showed an increase of 25 per cent. in its petrol consumption over 1926. Every other country in the world is doing the same thing—some more and some less—and we think that in the course of two years that there will be 50 or 75 per cent. increase because it is going up so rapidly. That is the reason for our thinking that the time has now arrived when we can foresee that a considerable amount of petrol will have to be imported into India.

President.—Therefore you are taking these steps.

Mr. Guthrie.—Yes, that is a business risk which we must take.

President.—That is a risk which the Indian industry has to take. There is a fight between you and the other foreign competitors about this market and the Indian industry has got to come into it.

Mr. Guthrie.—I am not prepared on behalf of my company, nor will I recommend to them that we give any undertaking whatsoever to restrict our sales of petrol in any respect to the exact difference between the indigenous supply and the demand as has been suggested. We expect by the time we shall be ready to market petrol in India, the consumption of petrol will have materially increased to a point where we shall be in a position eventually to sell a quantity consistent with the plant investment that will be necessary. It was not our intention to give any other impression than this in our printed representation to the Tariff Board. I will undertake on behalf of the Standard Oil Company of New York to market such petrol as we do sell at prices at which petrol is at that time sold by indigenous or other companies selling petrol in India. It is not our intention to enter the Indian market by cutting prices below those then prevailing and if petrol prices are at that time reduced, it will not be on my company's initiative. That is the only guarantee I will give in connection with our entry into the petrol business in India.

President.—As far as I can understand your policy from that, you don't undertake to confine the quantity of petrol that you may sell to the difference between the indigenous supply and demand but you do give an undertaking that you will not sell petrol at prices below those at which it is being sold at that time in India.

Mr. Guthrie.—That is right.

President.—You may not do it. Just as we heard in this rate-war in anticipation of the coming of the Soviet oil it was necessary in self defence to make a cut, so at that time either you or the Royal Dutch may in anticipation of some body else coming in cut petrol prices or give bonuses and allowances or make open cuts.

I am sorry I did not quite follow you yesterday. Did you say that in your opinion this war would not extend to petrol?

Mr. Gray.—I said if petrol was imported before it was required, it would result in a rate-war probably.

President.—It is rather an important point.

Mr. Gray.—There would be no war till petrol was imported and if it was imported before it was required I think there might be a war.

President.—If it was imported at the time when there was a demand will there be a war?

Mr. Mathias.—I understood you to say that in such a case there would not be any war.

Mr. Gray.—There wouldn't be unless there was a war between the importers. The importers might start a rate war.

Dr. Matthai.—Within what time do you expect normally that a deficiency would arise? Supposing, for example, the arrangements that the Standard Oil Company are making take two years to complete, within two years would there be a reasonable possibility of the demand exceeding the indigenous supply?

Mr. Gray.—If there were no new developments of any kind I think that the demand might overtake the supply in two to three years.

Mr. Mathias.—You are not speaking now on behalf of the Asiatic Petroleum Company but merely on behalf of the indigenous producers, are you not?

Mr. Gray.—That is so.

Mr. Mathias.—You offer no opinion as to what the Royal Dutch Shell Group might do if the Standard Oil Company imported petrol within three years?

Mr. Gray.—I take it the Royal Dutch Shell Group would expect to have a share of the Indian market. They won't stand and wait for the Standard Oil Company to capture the market.

Mr. Mathias.—I gather that, at any rate so far as the present cause of the dispute is concerned, that is to say the purchase of the Soviet oil, the group represented in India by the Asiatic Petroleum Company would not extend the war to petrol if it was proved that there was a deficiency in the indigenous supply? Is that correct?

Mr. Gray.—I have never contemplated that at all. I am hoping that the present rate war will be finished long before the deficiency in petrol arises.

Mr. Mathias.—You don't expect it to be a hundred years war. You expect that the rate war will be over long before that! Mr. Guthrie, have you any comments to make on our terms of reference, namely

“To report whether it is in the national interest that protection against the dumping of imported kerosene should be given, and if so in what form and for what period”

I want to give you an opportunity of making any comments on this.

Mr. Guthrie.—We don't dump anything.

President.—You know how the term dumping has been explained by the Government of India. This is the sense in which the Government of India has used that term—

“The question to be investigated in the enquiry is the advisability of taking steps to safeguard an Indian Industry from injury inflicted by dumping, that is the sale of imported kerosene in India at prices below world parity”.

Have you not been selling at prices below world parity?

Mr. Guthrie.—I am very confused on this question of world parity. I don't know what it means.

President.—What we want is your selling price in the different areas *ex* main installations from the beginning of 1927.

Mr. Guthrie.—You want every change in the price of our superior kerosene since January 1927?

President.—Yes. You will simply mention all the changes as they have taken place and the order and time.

Mr. Guthrie.—I will.

President.—I think I told you to get us the quantities of the imports at different markets?

Mr. Guthrie.—Yes.

Dr. Matthai.—You are sending us also copies of the circulars that you issued?

Mr. Guthrie.—Yes.

President.—To the prices that you are going to send us we have got to add railway freight and deduct 3 annas to get your nett price at destination. The

point is, your selling price may be Rs. 5 but if you are getting only Rs. 3 that is not your selling price. I want to know the nett price that the Standard Oil Company gets *ex main* installations. Supposing your wholesale price is Rs. 5, you have got to pay so much commission, so much for leakage and so on; you will mention those items.

Mr. Guthrie.—I will send you the statement.

President.—Are your sales chiefly on the cash basis?

Mr. Guthrie.—There is the commission agent. The agent puts up a guarantee of Rs. 5,000 or 10,000 for the agency and then we allow him credit up to that amount.

President.—It is a sort of current account against deposit?

Mr. Guthrie.—Yes.

President.—It really practically means cash?

Mr. Guthrie.—Yes.

President.—And he has got to keep this amount in deposit more or less permanently?

Mr. Guthrie.—Yes, so that there are no bad debts.

Mr. Mathias.—I wonder if you could give me some details as to the costs of the various necessities in the oil business, for instance what it costs to erect a refinery or the value of a tank and so on.

Mr. Guthrie.—I will get them if I can.

Mr. Mathias.—I suppose the refinery would be too big a thing?

Mr. Guthrie.—Yes. It is tremendous. I will give you details of the other items.



सत्यमेव जयते

**THE BURMAH OIL COMPANY, LIMITED, THE ASSAM OIL
COMPANY, LIMITED, THE INDO-BURMA PETROLEUM
COMPANY, LIMITED, THE BRITISH BURMA PETRO-
LEUM COMPANY, LIMITED, HESSFORD DEVELOP-
MENT SYNDICATE, LIMITED, THE ATTOCK
OIL COMPANY, LIMITED.**

**Evidence of the Hon'ble Mr. GRAY, Messrs. J. TAIT, G. G.
COMPTON, W. S. LAMB and D. CAMERON recorded
at Rangoon on Wednesday, the 2nd May, 1928.**

President.—This representation of the 30th April is signed by all the smaller companies.

Mr. Tait.—Yes.

President.—The reason why I asked you for the statement was rather this. We wish to know having regard to your costs and the immediate economies that you might be able to effect, what assistance would enable you to carry on? That was the main object of my having asked you to prepare this scheme. You are proceeding on an entirely different assumption.

Mr. Tait.—This is what we thought you wanted—some form of relief that could be applied almost immediately.

President.—That is as regards the method. What I really wanted to know was how much would enable you to carry on, supposing you were running your business at a loss to-day. That was my object of having asked for a statement. However you have put it on an entirely different footing and I shall deal with it as you have put it, but this is not what I wanted.

Mr. Tait.—Yes.

Proposed measures.

President.—There are two proposals in your representation; one is that this excise duty of one anna on a production of 5,000 barrels per day should be remitted.

Mr. Tait.—Yes.

President.—That is the production of the smaller companies. Is that right?

Mr. Tait.—Yes.

President.—That is one aspect of the question.

Mr. Tait.—Yes.

President.—You want the excise duty on kerosene and petrol of one anna and four annas respectively should be remitted.

Mr. Tait.—Yes.

President.—At the same time you propose that there should be an increase in the import duty on kerosene of one anna, is that right?

Mr. Tait.—Yes.

President.—That means, I take it, that if the excise duty is remitted, you don't reduce the prices. That is your idea.

Mr. Tait.—That is the idea.

President.—Therefore the Government loses out of its revenue Rs. 60 lakhs in a year. That goes to the oil companies.

Mr. Tait.—Yes.

President.—In addition this duty of one anna would give Rs. 52 lakhs increase in the customs duty.

Mr. Tait.—Yes, to the Government.

President.—On the kerosene it would be really more than that. If the import duty goes up on all kerosene, I don't know what the effect of it would be upon the revenues of the oil companies. Would the price increase by one anna? It is true that the additional revenue to the Government would be Rs. 51 or Rs. 52 lakhs, but the increase in the oil companies revenue would be a good deal more.

Mr. Tait.—The object of it is to force the importing company to raise its price.

President.—We have got to consider the effect. An increase of one anna in import duty would raise the price of kerosene all round by 30 per cent., if not more. So though the Government may get an additional revenue of Rs. 51 lakhs if the price of all kerosene goes up by that amount, the burden on the consumer is a good deal more.

Mr. Mathias.—The burden on the consumer would be rather more than a crore assuming that 30 per cent. of the kerosene is imported.

Mr. Tait.—I should think so. My idea would be that the price would nearly reach world parity, the oil in the meantime being sold at a loss. This would force the importer to bring his price up by this amount.

Mr. Mathias.—Would it really have that effect, supposing the two companies wanted to have the war?

Mr. Tait.—We don't know.

President.—If they determine their price according to the cost, that is a different matter, but when these companies have made up their minds to carry on the war, do you think that that is going to stop the war?

Mr. Tait.—That is making it more difficult to carry on.

President.—It is a question of stopping the war. If you increase the price of kerosene by one anna all round, it throws a tremendous amount of burden on the consumer.

Mr. Tait.—So long as prices were not increased above world parity, excluding the incidence of the extra anna on the import duty, the consumer should have no complaint.

President.—I am putting to you the consumers point of view.

Mr. Tait.—He is getting his oil now at below cost.

President.—This is the only time in the history of oil companies where the consumer would benefit. It appears from the way in which your business is conducted, the consumer will never benefit unless there is an oil war.

Mr. Tait.—He has no right to expect it.

President.—The whole position is this. No matter where petrol is produced, he is going to get it at the price at which it can be manufactured in other parts of the world, so that the only time the consumer expects to get benefit, that is to say, when he can get his petrol or kerosene a little cheaper is only when the war takes place.

Mr. Tait.—That is so.

President.—Take the Indian consumer. You ask him to bear that burden of one crore. He will say "Have I at any time got anything from the oil companies. Every time the price was fixed for me with reference to world conditions". He will say to himself "Does it pay to have oil manufactured in my country. If I can get my oil, it does not matter to me where it is produced".

Mr. Tait.—It is always within your power to say that this one anna should not be added on to the selling price. Although the importer will have to pay Government, still it may be possible to arrange with the indigenous companies that they do not raise their price.

Mr. Mathias.—If you don't raise your price, the dealers will.

Mr. Tait.—What we really want is to make the importer pay so much more.

Mr. Mathias.—Then the consumer would not benefit, because your dealer would put up his price.

Mr. Tait.—Not necessarily.

Mr. Mathias.—Mr. Gray can tell you that it is so.

Mr. Tait.—The dealer will always speculate.

Mr. Mathias.—That means the consumer doesn't get benefit by reducing your prices or by your getting the price one anna lower.

Mr. Tait.—That is the maximum the dealer is supposed to sell at. If they sell at a lower price, we have no control over them.

Dr. Matthai.—In these proposals that you have made, there are two things to be considered. First is the position of the industry under normal conditions, that is to say, if there were no price war. Then there is the question: what is the sort of help that you should be given in case this price war is going on. It is quite likely that if the import duty is put up, it might improve your position under normal conditions, but while there is a price war going on and as a measure of assistance against the war, a rise in the import duty by an anna would not be of any assistance at all.

Mr. Tait.—We maintain that it will.

President.—I mean the only circumstance under which this can be justified will be this. For the sake of argument supposing this war goes on, this duty is increased, and the indigenous oil companies give an undertaking that they will not put up the price of kerosene by reason of an increase in the import duty; supposing you are guaranteed a certain price, say, Rs. 4-8-0 or whatever it is.....

Mr. Tait.—We are talking of the temporary relief.

President.—Yes. Then you give an undertaking that no matter how much the duty goes up, you will not raise your price above the stated price. If any dumping takes place every time they cut the price, the Government increases the duty, so that only the foreign importer is affected, but the prices in the country are not affected. Will the oil companies be prepared to give that undertaking?

Mr. Tait.—Yes, I think so, if we get relief to the necessary extent say permanent remission of the excise as proposed.

President.—No. 1 has absolutely nothing to do with the case. The whole point is what is the price that you ought to get and that has nothing to do with the world parity. The Government may do it in any way it likes. Supposing a case is made out for it, then Government may say "all right, we will estimate the excise duty" or Government may say "we will put up the import duty to such an extent that it will give you the price, but if the import duty is raised beyond that point, you should not raise your prices". Will the oil companies be prepared to give that undertaking?

Mr. Tait.—I think so.

Mr. Gray.—It is quite likely that they would.

President.—Supposing Government said that it is not in the interests of this country that this war should go on and it should be put an end to, but at the same time it should not cost the country anything, will the companies undertake that and see that no prices are raised beyond what is necessary to give them what the Government considered a fair selling price.

Mr. Tait.—We will discuss it with our principals.

President.—Here we are simply discussing the general position. If you put up the duty by one anna, it may not suffice at all. It may be that you require 2 annas or 4 annas or whatever is necessary. The point is that the consumer should not be asked to bear any unnecessary burden.

Mr. Tait.—All that we want is to be protected against unfair competition. I think the companies will be prepared to give an undertaking that they won't raise the price above what is a fair price.

President.—As you know the Government of India in their communiqué have said that this relief should not be made a reason for the bigger companies to make bigger profits, but that protection should be applicable only to the smaller companies.

Mr. Tait.—We want to make the importer pay for it, but it does not necessarily follow that we should put up our prices.

President.—Then there is the other point about the consumer. He may say "I was going to benefit nearly to the extent of Rs. 2 crores, but I have not. When the oil war is over, am I going to benefit?" What are we to say to him?

Mr. Tait.—So long as you have dominating indigenous production, these will no doubt control prices.

President.—I pointed out to you a little while ago that by having this indigenous industry, the consumer had not benefitted. The consumer might say "I might have bought oil from foreign countries at the same price. I don't benefit at all by the indigenous industry existing in the country".

Mr. Tait.—The mere fact, that the indigenous industry exists, limits the upward tendency of prices. Under the pooling arrangements.....

President.—I am not going into the pooling arrangements. I have not yet examined that question. I have not been able to say so far whether the pooling arrangements have benefitted the consumer.

Mr. Tait.—On the other hand you will find that the indigenous production limits the upward tendency of the prices. Without that the consumer would be entirely at the mercy of the outside groups.

President.—You are assuming a fact which you have not yet established.

Mr. Tait.—The only assumption we make is that the pool prices have been below world parity.

President.—I have not studied the pool prices so carefully. I hope to be able to understand them.

Mr. Tait.—My point is on the assumption that the existence of the indigenous industry limits the upward tendency of prices.

President.—Would it be a substantial advantage which the consumer can consider against the immediate loss of 2 crores or whatever the figure may be?

Mr. Tait.—We will also protect him against any future loss. It also ensures him against any higher prices in future.

President.—How does it? So long as your prices are world parity prices, subject to whatever concession he gets under this pooling arrangement which I have not yet examined, does he get any benefit? Can the consumer say to himself "all right, this industry is a good one and let me support it".

Mr. Tait.—Our kerosene prices are not world parity prices. The indigenous companies' oil prices are below world parity prices.

President.—It depends on how you look at it. I have not yet understood your pool methods. As far as I can understand, the consumer does not really gain very much by it, taking the consumer as a whole. It may be that one class of consumer may get his kerosene of a kind which is cheaper but I am speaking of the consumer as a whole. I don't think you have so far shown that the consumer, as a whole, really is benefitted by the pool. It may be that the poorer consumer may be getting his kerosene cheaper but taking the poorer class consumer and the better class consumer together, I don't think that the general consumer, as far as I can understand, has benefitted.

Mr. Tait.—It is admitted that the better class consumer or a more wealthy consumer has paid for the lower class consumer.

President.—Quite true. The man pays for half the kerosene more than the world parity prices. He comes in and says "what am I going to benefit

by this indigenous industry". I am just putting to you his point of view. If we make a proposal by which he is deprived of this temporary benefit he is entitled to ask "what am I going to get" and I want to know from the companies what they offer him.

Mr. Tait.—I take it that you want to be satisfied that the pool prices are not above world parity prices.

President.—That is one of the point. You benefit me at the expense of my colleague. It does not reconcile my colleague to the idea of losing his share.

Mr. Tait.—You would prefer both to pay the same price?

President.—I want to know how he is going to console himself by the fact that I am benefitted. What advantage is that to him?

Mr. Tait.—It is a principle of taxation that you tax some people who can afford it to benefit somebody else.

President.—What the consumer wants to know is what the companies have done. It is in the interests of the companies that the country is going to make a sacrifice. The consumer wants to know what have the companies done, and I have been trying to find out what the companies have done for the consumer—not one class of consumer as against another class of consumer. I may not have understood the pool arrangements. But if you can show me that the companies have given some benefit to the consumer at large, that is a point in the companies' favour. I want to understand whether that is so.

Mr. Gray.—I am sure that the consumer on the average is benefitted.

President.—The figures that we have got so far I don't think suggest that I am taking the figures that you have given, viz., Rs. 5-12-0 and Rs. 4-6-0. On the basis of those figures, you got an average price of Rs. 4-11-0 which was just above world parity. Taking your average price, the general consumer did not get his kerosene below world parity.

Mr. Gray.—The imported oil which goes into the kerosene pool is put in at world parity price which is the price which the Indian consumer would have to pay if there were no indigenous oil in this country. As regards the indigenous companies' contribution to the pool, a certain quantity is contributed at Rs. 3-6-0 per unit which is very much below the world parity and the rest of the contribution at a price not exceeding the world parity but usually below it.

President.—That is a point which I want you to establish.

Mr. Gray.—Yes.

President.—As I say, as far as I am able to follow, that point is not sufficiently established.

Mr. Gray.—I can show you the prices at which oil is contributed.

President.—Taking the pre-war prices, the position is different because I think the figures given by you are Rs. 5-12-0 and Rs. 4-6-0, the average being Rs. 4-11-0 and the world parity is Rs. 4-9-0 on the basis of the figures supplied by you, so that the general price of kerosene was not below world parity. You gave the explanation that in the earlier period the prices were very much lower.

Mr. Gray.—Prices are fixed every six months. They don't usually have fluctuations.

President.—Unless that point is established that the consumer at large is substantially benefitted he will want to know why he should give up this temporary benefit which he is going to get. I have asked for a lot of information and I daresay you are sending it in. But that is a point which I feel some difficulty about. It has been your case all along that the average price paid by the consumer is slightly below the world parity price.

Mr. Gray.—It varies. In our replies to the Commerce Department's questionnaire we have given you prices for two half-yearly periods paid by the pool for kerosene contributed to it.

President.—That is a very important point to clear up from your point of view. If that point is established by Mr. Gray for your purpose then we have got to see whether the benefit which the consumer gets under that arrangement counterbalances the loss he is put to just now. Supposing that is not the position, what is your suggestion? On what ground can you ask the consumer to make the sacrifice apart from those general grounds you have given?

Mr. Compton.—The consumer at the present time is enjoying a benefit to which he is not really entitled normally.

President.—What do you mean by normally?

Mr. Compton.—He is paying far less than he would under normal market conditions.

President.—Why, it is the consumer's right. If you don't ask him to make a sacrifice it will be all right, but when you are asking him to make a sacrifice, what are you going to do for him in return? Have you done anything for him in the past? Are you going to do something for him in the future? These are his questions.

Mr. Tait.—What more should we offer him? It was just the same in the case of the Steel Industry. The consumers could get steel from Belgium at very much less price than could be manufactured here.

President.—We have given very good reasons in our report. If you had anything like the Steel Industry case, I would not have brought in this question. That is entirely different from your case. I would like you to study that report now that you have referred to it.

Dr. Matthai.—The whole difference is that the Steel Industry is still in the position of an undeveloped industry while you have been here for nearly 40 years and even after 40 years the consumer still gets his oil at a price more or less corresponding to the price of imported oil.

Mr. Tait.—They can establish the fact that pool prices are below world parity prices. You can draw your conclusion from that fact that if the pool had not existed the consumers would have had to pay more. The mere fact that they were there has been responsible for the limiting of the price and the Chairman of the Burmah Oil Company has put that down in figures. It is up to them to satisfy you on that point. If they are correct there is no question as to the benefit to the consumer.

President.—True, but the figures can be read from different points of view. I am suggesting supposing that proposition is not established are you prepared to give any other answer? We have to answer those points. If any industry wants some measure of protection, it has got to show to the consumer that in the long run he is going to benefit.

Mr. Tait.—It is always up to Government to see that prices are not beyond what they should be or what the consumer can pay. In addition to that, you will have an industry in the country which is of benefit to the people of India and Burma.

President.—You are getting away from the point. Government are not the only party. This is one of the principles accepted by Government in the question of protection. They have to consider the interests of the consumer. If on a balance of considerations it appears that the consumer must make the sacrifice, Government say "make it".

Mr. Tait.—You don't wish to consider the question of national importance of the industry but purely from the consumer's point of view.

President.—We are now dealing with the question from the point of view of the consumer.

Mr. Tait.—We are so satisfied with the pool having benefitted India that we have never contemplated any other conditions. We are satisfied with what the pool has done. If you are not satisfied, it is up to the pool to satisfy you on the point.

President.—You put your case entirely upon the proof that the pool gives of that and if the pool is not able to satisfy us then you will have to go. Is that your position?

Mr. Gray.—There is also this point to be considered. In our representation we show that the Burmah Oil Company have contributed about Rs. 3 crores to the revenues of Government. If the industry had not been in existence this would have to be raised by some other form of taxation.

President.—That is the Government point of view.

Dr. Matthai.—Supposing the whole of the kerosene oil was imported, Government would get more in the way of revenue.

Mr. Tait.—Do you mean from the import duty?

Dr. Matthai.—Yes. Supposing the whole of this oil was imported, purely as a revenue proposition Government would stand to gain more.

Mr. Tait.—The consumer would stand to lose.

Dr. Matthai.—If you are distinguishing the two points of view, the contribution that you are making is not a conclusive argument. It is no doubt a factor.

Mr. Cameron.—As far as the Attock Oil Company is concerned, during the last six or seven years they have been continuously selling below the Standard Oil Company and in that way have benefitted the consumer in the Punjab.

President.—That is a point. But the Attock Oil Company serves only a small percentage of the market.

Mr. Cameron.—We have done our part.

Dr. Matthai.—The whole argument would turn on the question how far prices in the past have been below or above world parity prices.

Mr. Lamb.—There is another point of view to be considered. In the ordinary questionnaire sent out by the Tariff Board one of the questions and the important one is: is the raw material found in India? If the raw material is found in India, that is a very strong reason for giving protection. If the raw material is not found in India, then that very seriously affects the view of the Board. Here is a case where the raw material is found in India. Therefore you have to take a long view as to what it means to India now and in the future. You have to consider what is going to happen.

President.—We are taking the points separately. As I have said we have to take everything into account, and on a balance of considerations if it is found that the industry has to be protected, it is protected. Each item has first of all to be considered separately and then all the items have to be considered together.

Mr. Lamb.—It appeared to me that no sufficient regard was being given to that aspect.

President.—We don't often ignore such obvious points in our enquiries. May I take it that these proposals of yours only refer to the period during the war or do you wish to go beyond that?

Mr. Tait.—We have put forward proposals to cover the period of the war and a post war period equal to the duration of the rate war as set out in suggestion 1.

President.—That is to compensate you for the period between the war and the time when any action is taken by Government, is that right?

Mr. Tait.—Yes.

President.—Do you go beyond that in your proposals?

Mr. Tait.—For a similar period after that.

President.—This enquiry, now being conducted, really does not contemplate an enquiry into the whole question of protection of the industry. As the reference is worded it more or less refers to the effect of the war on the financial position of the industry. There is a distinction between the two. You are going beyond that.

Mr. Tait.—Still we have asked for protection to be extended beyond the war.

President.—If the proposals are to be confined to dealing with the effects of the war, you don't want them to be extended beyond that time.

Mr. Tait.—The effects of the war would be felt over a period beyond the termination of the war.

Mr. Mathias.—Do you think that some protection is necessary until the time arrives when you have made good your losses?

Mr. Tait.—Yes.

President.—The losses that you contemplate are on the position as it was before the war.

Mr. Tait.—Somewhat like that.

President.—There are two ways in which it can be looked at. Supposing your position before the war was very much better than that of the position of the protected industry, then you still claim that you should be put back in the position in which you were before the commencement of the war.

Mr. Tait.—We suggest that we have been losing—and we will continue to lose—while the war lasts and that we should be allowed relief for a similar period after that to enable us to recoup our losses. It will be for the Board to decide to what extent we should be allowed to recoup our losses.

Dr. Matthai.—So as to place you in the same position of efficiency as before the war?

Mr. Tait.—We are losing now and will continue to lose and we expect to realize from our products something lower than the world parity. We feel that to the extent that we have lost and will continue to lose we should have some relief for the remaining period of the rate war and for a similar period after the termination of these rate cutting disputes to enable us to regain the loss that has been forced upon us.

Dr. Matthai.—On what public ground do you base your request? You have suffered certain losses and it is going to take some time before you recoup this loss. As a company you ask for assistance so as to enable you to recoup this loss because you consider that your services to the country in the matter of the development of oil resources would not be possible unless your losses were recouped. Is that your position?

Mr. Tait.—Yes.

Dr. Matthai.—Supposing you were asked what sort of period should be taken after the cessation of hostilities?

Mr. Tait.—We have stated that in 1 (b).

Dr. Matthai.—“For a post-war period equal to the duration of the rate war”, that is to say, if the rate war lasts for a year you want assistance for one year after the war, or two years in all?

Mr. Tait.—Yes.

President.—As regards the question of permanent assistance the principles are somewhat different from what you understand it.

Mr. Tait.—When we were in Delhi we suggested to the Hon'ble the Commerce Member that all that we wanted was to stop the war. We suggested that it was surely within the power of Government to communicate with the disputants and to declare that Government did not want this war to be carried on and to destroy the indigenous industry. We were told that Government never did negotiate or bargain with any outside parties, Government merely acted. To the commercial mind the obvious thing is to go to the contestants and say “what are you fighting about? We don't want you to disturb the commercial peace of the country”. We claim that we have done enough for India's prosperity which justifies some protection from Government.

President.—We are here to enquire into this and listen to both sides of the question. I am just putting to you the points that may be and have

been raised against you. I have read all the papers so far received and there is not a single body, public or individual, who has supported this case. We have asked for public opinion and every opinion we have received is against the oil companies. It is for that reason that I am asking you these questions. I think I am right in saying that the Burma Chamber of Commerce is the only body which supports your application. Commercial bodies generally oppose protection. European interests have nearly always done so. The Burma Chamber of Commerce has always up to now done so in every enquiry except in this one; as far as I recollect every time unless it had reference to its own province. In this case they have supported your application. It is very important to consider these points. We generally expect all Chambers of Commerce to express their opinion and in most occasions they have done so, and I think in most of our previous enquiries European Chambers of Commerce and the Indian Chambers of Commerce have sent in their opinion.

Mr. Cameron.—I think most of the Chambers of Commerce would have sent in their opinion if they had sufficient notice.

President.—We gave them whatever time we could.

Mr. Lamb.—Do you often receive letters and communications in many cases in favour of applicants for protection from outside bodies? Is it not rather the opposite?

President.—Yes. I am just trying to point out that we have asked for public opinion and these representations will be published and I tell you that so far I have not had a single representation which supports your case except the Burma Chamber of Commerce and for that reason it is very important for this Board to ask you to explain the points which are likely to be raised against you.

Mr. Tait.—I see your point.

President.—You also ask for an increase in the duty on petrol?

Mr. Tait.—Yes.

President.—That means that the price of petrol has got to go up by 4 annas.

Mr. Tait.—Not necessarily. It is in order to prevent any other petrol coming in and underselling us that we want this duty.

President.—Supposing there was a shortage and we put a duty of 4 annas and the price of petrol went up by 4 annas, until that petrol was imported into the country there would be a shortage of petrol in the country.

Mr. Tait.—Then as in the case of protection of kerosene it will be open to Government to satisfy itself that the price charged is not excessive. It need not necessarily follow that the import duty on petrol should be added to the selling price as a whole or even in part and Government can always satisfy itself that the price charged is reasonable.

President.—The position would be very difficult. Supposing there is a shortage of petrol and it has to be imported. You put an extra duty of 4 annas on the imported petrol, then how is that petrol to be sold in the country? They would want 4 annas more than you would because of the duty. How are they to sell that petrol in the country at all unless they sell at the same price? How are you going to prevent your agents from getting the same price as imported petrol?

Mr. Tait.—It is always open to Government to be satisfied as to the price to be charged.

President.—When you propose an extra duty of 4 annas under normal conditions.

Mr. Tait.—We do not propose that.

President.—You want to prohibit the importation of petrol. When you say prohibit petrol it means that there is no petrol required in the country.

Mr. Tait.—We ask for the previous margin of protection to be restored.

President.—If there is no price war and foreign petrol has to come into the country then also you suggest a duty of 4 annas.

Mr. Tait.—Not 4 annas, 2½ annas.

President.—The whole thing is this. If you restore this duty of 2½ annas, when the import of petrol becomes necessary you cannot help raising the price by that amount at that time. Either you raise your price by that amount or the other companies must pay this duty out of their own pocket. In that case the demand cannot be met. It is only when the supplies are more than the demand that you are hurt.

Mr. Tait.—That is merely a suggestion. What other way would you suggest?

President.—It does not seem very practical, does it? Assuming that there is shortage of petrol and petrol has to be imported. Then you say there should be a duty of 2½ annas which would enable you to get 2½ annas more than the foreign petrol. That means that the price of all petrol has got to go up by 2½ annas.

Mr. Tait.—Suppose you say instead of putting up the import duty you will issue import license on petrol of foreign origin, that will satisfy us.

Mr. Mathias.—Your suggestion is that the indigenous industry so far as its home market is concerned should be exempt from all foreign competition?

Mr. Tait.—Yes. The indigenous industry while it is able to supply all requirements should be exempted from foreign competition.

Mr. Mathias.—On what grounds? Other industries have to stand competition from abroad. What is the reason that the petrol industry should be exempted?

Mr. Tait.—On the general principle that the indigenous industry as a whole is valuable to India and under any other circumstances it cannot carry on economically.

Dr. Matthai.—There are really two proposals that you make with regard to petrol. In this representation you are asking that the excise duty on petrol should be remitted and also that the previous margin of protection should be restored. Your position, as I understand it, is this. You want the excise duty to be remitted as a measure of relief in respect of the kerosene war. But if the price war extended to petrol then you would suggest that the previous margin of protection should be restored as a measure of protection against any cut in the price of petrol.

Mr. Tait.—Yes.

Dr. Matthai.—What precisely do you mean by this statement on page 3 of your letter, dated 30th April:—"It would appear to us that abandonment of the fundamentals of that policy now while at the same time the hands of the indigenous producers are so strictly tied by the terms of the mining rules, would entail the gradual extinction of the indigenous industry as it is too small compared with that of other producing countries to withstand by itself, uneconomic competition". I don't quite grasp the point of that.

Mr. Tait.—The point is that under the Mineral Concessions Manual no foreigners can operate here.

Dr. Matthai.—How does that affect the position of the oil companies?

Mr. Tait.—If through any economic force we are compelled to close down obviously the petrol industry goes under the control of the foreigner. We cannot help ourselves by joining up with these foreigners.

Dr. Matthai.—To the extent that the supply of oil is not available in the country, to that extent foreign import will increase. The supply of crude is produced elsewhere than in India.

Mr. Tait.—Yes.

Dr. Matthai.—As regards the danger that you are apprehending in the last sentence of your representation, dated the 30th April 1928, I see that

the proposed duty on kerosene is not going to come off. To that extent the danger that you apprehend is not going to arise.

Mr. Cameron.—The budget is not passed yet, but they expect the duty to be put on kerosene.

President.—We may make some recommendations which may have temporary or permanent effect or we may make no recommendations or no temporary recommendations. But we may say that when it become necessary in future, the industry should be protected. There are many possibilities. What I am asking you is if the Government made it a question of protection on ordinary lines as it did in the case of steel, paper, etc., in such a case what would be the position of the oil companies?

Mr. Tait.—We will have to know what the proposals are before we judge.

President.—In an ordinary enquiry we require much more elaborate data. Will the companies submit to that?

Mr. Tait.—Do you mean it will involve a more detailed enquiry?

President.—Yes.

Mr. Tait.—We have offered you everything we can.

President.—We have not been able to deal with it in the same way. No doubt you have been of some assistance.

Mr. Tait.—For that reason some temporary measures should be granted to tide us over until such time as a more detailed examination could be held if it was thought necessary. There are precedents when these temporary measures have been granted in the past.

President.—Will the companies then agree? I am putting to you one of the possibilities. Supposing the position is somewhat like this: there is no immediate action or any drastic action, but at some future time it may become necessary to investigate whether any action should be taken which should put the industry on a sound footing. That means, as you will understand, a much more elaborate enquiry than this one. I see from the previous correspondence between you and the Government of India and the other parties that some objected to that.

Mr. Tait.—We have no objection to any enquiry into our costs.

President.—What is your position Mr. Gray? In this enquiry you are not immediately interested.

Mr. Gray.—No, we are not.

President.—You think at some time or other this war may so develop on other lines and in that case the Burmah Oil Company may be compelled to see whether something could not be done to help that company also. I wish to know what your view is as regards that.

Mr. Gray.—I don't know what further information you want.

President.—You have not been through a regular enquiry, so you don't know what information we require. Supposing the position was that on our report the Government of India came to the conclusion that there was no necessity for any drastic immediate action, but that there might be a case for consideration whether the industry should not be put on a more secure footing. For that purpose the materials are not enough. Would the companies submit to a much more elaborate enquiry in the same way as the other industries?

Mr. Gray.—The Burmah Oil Company's case is that it cannot put up any evidence to justify protection at the present moment, but if on any future date it is reduced to such a state that it requires protection, I have no doubt that it will submit to a much more elaborate enquiry.

President.—I am simply trying to ascertain what the views of the companies are on that point. First of all, the Tariff Board makes the enquiry and submits their report. The Government of India considers it and then it goes before the legislature. Any one of those three bodies may take up that attitude. If we had the companies' views, we would consider them.

Mr. Gray.—I don't think the Burmah Oil Company can say at the moment what course the war will take and whether there will be financial difficulty or not.

President.—What are the views of the smaller companies?

Mr. Tait.—We have offered already to give you full information on any point that you may wish. It will be up to you to say to what extent you want information.

President.—Of course, we have done our best to ask for as many statements as we can think of. *Mr. Gray*, there is a statement in one of your letters about the indigenous industry. I think *Mr. Tait* spoke to you about it.

Mr. Gray.—Do you mean the compensation to be paid to the contributors to the pool?

President.—It doesn't convey to me what that assistance means unless you give me the figures about Chinese prices. It conveys nothing to me at present.

Mr. Gray.—Yes, we will try.

Mr. Mathias.—What portion of the losses will be borne in money? Will you kindly give that information?

Mr. Gray.—Yes. I understood that you asked that question on a point of principle whether the Royal Dutch Shell has been inclined to assist the industry.

President.—Yes.

Mr. Gray.—I will have to cable home and get you the information.



THE ASIATIC PETROLEUM COMPANY (INDIA), LIMITED.

**Evidence of Mr. L. V. HEATHCOTE, recorded at Maymyo on
Wednesday, the 9th May, 1928.**

Introductory.

President.—Mr. Heathcote, are you the principal agent of the Asiatic Petroleum Company?

Mr. Heathcote.—I was the General Manager.

President.—But now you have formed this new company—Burmah Shell Oil Storage and Distributing Company of India, Limited.

Mr. Heathcote.—When this new company was formed, my services were taken over as General Manager.

Dr. Matthai.—Are you the General Manager for all India?

Mr. Heathcote.—Yes, excluding Burma where the Burmah Shell does not trade.

Mr. Mathias.—Who is the Joint Manager?

Mr. Heathcote.—Mr. Smith of the Burmah Oil Company.

President.—You had a joint sales organisation, hadn't you, with the Burmah Oil Company?

Mr. Heathcote.—It was not joint before; it is joint now.

President.—Then, formerly you were merely contributors to the pool.

Mr. Heathcote.—We had our own organisation and they had their own. We worked closely in touch but you could not say that they were joint organisations.

President.—I understood the arrangement was you were to supply the deficit.

Mr. Heathcote.—Yes.

President.—Then, whatever you supplied was sold to the public by your organisation. Is that right?

Mr. Heathcote.—Yes.

President.—That was then about how much?

Mr. Heathcote.—Do you mean the amount we contributed to the total amount that the pool sold?

President.—Yes. Would it be roughly 10 per cent.?

Mr. Heathcote.—I should say 10 to 15 per cent.

President.—That was sold entirely by your own organisation I take it.

Marketing organisation.

Mr. Heathcote.—The oil was not kept separate. The oil which the Burmah Oil Company contributed went into tanks and the oil we contributed also went into tanks, very often into the same tanks. There was no distinction between the oil contributed by the Burmah Oil Company and the oil contributed by the Asiatic Petroleum Company when it came to be sold.

President.—How much did you sell?

Mr. Heathcote.—About half.

President.—Though you contributed 10 per cent. you sold half.

Mr. Heathcote.—Yes.

President.—So far as sales were concerned, your interest was half.

Mr. Heathcote.—Yes.

Mr. Mathias.—What do you mean exactly by 'your interest was half'?

Mr. Heathcote.—When I said half I meant within a few decimal points of half.

Mr. Mathias.—It simply meant that your sales organisation was placed at the disposal of the pool.

Mr. Heathcote.—Yes, in the same way as the Burmah Oil Company did theirs.

President.—Apart from these two separate organisations working together, did you get a commission from the pool?

Mr. Heathcote.—Yes.

President.—What was the commission?

Mr. Heathcote.—We got $3\frac{1}{2}$ per cent.

President.—On the gross?

Mr. Heathcote.—Yes, we got $3\frac{1}{2}$ per cent. on the east coast and $3\frac{1}{2}$ per cent. on the west coast.

President.—Did the Burmah Oil Company get the same commission?

Mr. Heathcote.—No. The Burmah Oil Company sold through Messrs. Shaw Wallace Company. What we were to the pool, Messrs. Shaw Wallace and Company were to the Burmah Oil Company. That $3\frac{1}{2}$ per cent. and $3\frac{1}{2}$ per cent. included the *del credere* commission.

Mr. Mathias.—That is an average of $3\frac{1}{2}$ per cent.

Mr. Heathcote.—Yes.

Mr. Mathias.—That included what commission did you say?

Mr. Heathcote.—*Del credere* commission.

Mr. Mathias.—What does it mean?

Mr. Heathcote.—It means that if the dealer does not pay the money we have to pay it.

Dr. Matthai.—The Asiatic Petroleum Company does not function at all now. It simply exists as a constituent of the Burmah-Shell.

Mr. Heathcote.—The Burmah-Shell on the contrary really are the agents of the Asiatic. The Burmah-Shell account for the oil the Asiatic supply according to the new arrangements.

President.—Was the commission calculated on the *ex main* installation price or what?

Mr. Heathcote.—On the actual selling price including freight, insurance and other charges.

President.—At all points?

Mr. Heathcote.—Yes, at all points.

President.—That would make the commission very much higher.

Mr. Heathcote.—Yes, it would. The Asiatic were in two positions. They were contributing to the pool and as such had to pay the pool commission for selling their oil as contributors. The Asiatic were also distributors and received commission from the pool for selling oil in the market.

President.—What commission did the Asiatic pay as suppliers to the pool?

Mr. Heathcote.—I think it was 5 per cent.

President.—5 per cent. on what?

Mr. Heathcote.—That was on the *ex* installation price.

President.—Of the imported oil?

Mr. Heathcote.—Of the oil they contributed.

President.—Let me put it this way. On the 15 per cent. they contributed, they paid 5 per cent., and on the half which they sold they got about $3\frac{1}{2}$ per cent. on the average.

Mr. Heathcote.—They received 3½ per cent. on the east coast and 3¼ per cent. on the west coast.

President.—It was really more than that.

Mr. Heathcote.—Yes, on account of the rail freight, insurance and other charges.

President.—Then your sub-agents, I take it, must have got an extra commission.

Mr. Heathcote.—They got the commission included in the price.

President.—That did not come out of your commission.

Mr. Heathcote.—No.

President.—On last year's sales how much commission was earned by the Asiatic?

Mr. Heathcote.—I should say between Rs. 15,00,000 and Rs. 17,50,000.

President.—How has the present arrangement modified that? What is the effect of the new arrangement on the original arrangement?

Mr. Heathcote.—The eventual end I don't suppose will be very different. We have only just received the agreements under which the Burmah-Shell are to sell. They have to account to the contributing companies in a form which is entirely different to anything that we have done before. The agreements that we have just received show that the Burmah-Shell have to account to the contributing companies, viz., Burmah Oil Company, Asiatic Petroleum Company, Anglo-Persian Oil Company, etc., under a system quite different to anything that we have had before. But I don't suppose the eventual end of it will be very different.

President.—Are the Anglo-Persian in the Burmah-Shell group as contributors?

Mr. Heathcote.—Yes, but I cannot tell you exactly how they are contributing. They are contributors but they are not signatories to the Burmah-Shell agreement.

Mr. Mathias.—Does that mean that the Anglo-Persian will sell oil in this country?

Mr. Heathcote.—Yes.

Mr. Mathias.—They have not done so.

Mr. Heathcote.—Yes, since the Burmah-Shell came into being.

President.—You have now one single organisation.

Mr. Heathcote.—Yes.

President.—This Burmah-Shell will take over the sales organisation of the Asiatic Petroleum Company and the Burmah Oil Company.

Mr. Heathcote.—That is right.

President.—That of course may lead to some economy because there may have been some overlapping before.

Mr. Heathcote.—Yes.

President.—So far as the pool is concerned the Burmah-Shell will get more or less the commission that you and Shaw Wallace used to get before. That is what it comes to.

Mr. Heathcote.—We have got the agreements and know the form in which the Burmah Shell in which the Burmah Oil Company have half interest.

President.—Shaw Wallace go out.

Mr. Heathcote.—They have gone out.

President.—Their work has been taken over by the Burmah Oil Company.

Mr. Heathcote.—Yes—not by the Burmah Oil Company directly but by the Burmah Shell in which the Burmah Oil Company have half interest.

President.—That is the same thing, assuming formerly your shares were equal Shaw Wallace have gone out.

Mr. Heathcote.—Yes.

President.—Shaw Wallace formerly represented the Burmah Oil Company so far as sales were concerned.

President.—Now the Burmah Oil Company have taken that up.

Mr. Heathcote.—Yes, if you like to put it that way.

President.—Therefore the commission that went to the Asiatic and Shaw Wallace will now go to the Burmah-Shell. The Asiatic Petroleum Company remain where they were practically but the Burmah Oil Company step in.

Mr. Heathcote.—That is roughly the position. But whether the results of the agreements we have just received will work out to what they worked out before or differently I could not say.

Mr. Mathias.—Are the Burmah-Shell a profit making company?

Mr. Heathcote.—We do not know yet.

Mr. Mathias.—Is it intended to declare dividends?

Mr. Heathcote.—They will declare dividends. Whether they will be at all proportionate to the capital or not I do not know.

President.—They must charge commission on sales.

Mr. Heathcote.—They charge commission from which expenses will be paid.

President.—To the pool?

Mr. Heathcote.—Not to the pool but to the suppliers of oil. Before they pay for that oil certain charges are taken up and having reached the final end that is the Burmah-Shell profit which will be divided in proportion to the capital which is fifty fifty as far as I know.

Mr. Mathias.—Nothing goes to the other members of the pool.

Mr. Heathcote.—I do not know.

Dr. Matthai.—The smaller companies like the British Burma Petroleum Company and the Assam Oil Company, they are represented by the Burmah Oil Company in the Burmah-Shell.

Mr. Heathcote.—Yes.

Dr. Matthai.—The Burmah Oil Company's half interest covers that.

Mr. Heathcote.—As far as the oil is concerned.

Dr. Matthai.—But the profits will go to the Burmah Oil Company.

Mr. Heathcote.—I could not say off hand at all.

President.—I take it that the Burmah-Shell enter into separate agreements with each constituent company.

Mr. Heathcote.—Yes, with the Asiatic Petroleum Company and the Burmah Oil Company. I don't think that they have entered into any agreement with the Anglo-Persian.

Dr. Matthai.—Are the Burmah-Shell interested in anything else besides kerosene and petrol?

Mr. Heathcote.—Yes, in all the things that we sell.

Dr. Matthai.—In that respect they are different from the kerosene pool.

Mr. Heathcote.—Yes.

Origin and purpose of the price war.

President.—Let me understand the position as it stands. You claim generally, I take it from your representation, that you are on a different footing from the Standard Oil Company.

Mr. Heathcote.—Yes.

President.—Now I wish to understand how you establish that. I have read your representation very carefully and I have not been able to follow your line of argument. As regards the Standard Oil Company, their case is that up to now they have never had a price war with the indigenous companies. You had one in 1905.

Mr. Heathcote.—Yes. There was another one in 1911 which was caused by the Standard Oil Company.

President.—The Standard Oil Company never took part in a war.

Mr. Heathcote.—Yes, they did.

President.—They did not start it, did they?

Mr. Heathcote.—They might not have started it, but they were the people who were the cause of it. Whether they started it or whether they were the cause of it, as in the present war, I could not say.

President.—This is their case. They had been in this country for the last 35 years. They confined their sale to superior oil only. If they did not supply that, it would have been imported. The indigenous industry was never able to supply that quantity of oil nor that quality of oil. They came into the market before you.

Mr. Heathcote.—I daresay they did.

President.—Then, you thought that these people were in the market and they were having a certain share of the market. Their percentage of the market had nearly always been about 24 to 26 per cent. from the time they started, so far as I can see, up to now and you thought that they were getting too much.

Mr. Heathcote.—Yes.

President.—Therefore if you wanted to come into the country, you had to start the war.

Mr. Heathcote.—Are you referring to 1911 or to the present war?

President.—To both.

Mr. Heathcote.—We were dissatisfied.....

President.—Your dissatisfaction was that they were in this country. Your view is that you are entitled to get possession of some of their market.

Mr. Heathcote.—That is quite true.

President.—On that date you did not care how the indigenous industry was affected.

Mr. Heathcote.—Do you mean in 1911?

President.—In 1905.

Mr. Heathcote.—In 1905 our fight was not so much against the Standard Oil Company as against the Burmah Oil Company.

President.—On two occasions you entered into the war before and this is the third one. On the first occasion it was entirely against the Burmah Oil Company.

Mr. Heathcote.—That was to get a footing in the market.

President.—Then you came to an agreement with them.

Mr. Heathcote.—Yes.

President.—Then you suggested to them that you must be allowed to import certain quantities. Exactly what was the arrangement?

Mr. Heathcote.—The arrangement from the time we came to an agreement with the Burmah Oil Company up to now is that the indigenous oil gets the first right. If the market is not able to take more than the indigenous oil producers can give, we get nothing.

President.—That is the position of the Standard Oil Company.

Mr. Heathcote.—No.

President.—I am putting to you their case. Just explain to me how you make out your case. They were here before you. Up to now their market has not increased.

Mr. Heathcote.—Indeed it has. Their percentage may not have increased.

President.—I am also talking of the percentage. They have not up to now commenced any war.

Mr. Heathcote.—No.

Mr. Mathias.—What about 1911?

Mr. Heathcote.—I could not say. I expect we started it.

President.—So far as the indigenous industries are concerned twice anyhow you started the war. In the third time also it is admitted I think that you took the initiative.

Mr. Heathcote.—Yes, we did.

President.—On all the three occasions, it was the Asiatic Petroleum Company which dragged the indigenous companies into the war. Is not that the position?

Mr. Heathcote.—In 1905 it was a fight against the Burmah Oil Company and from then started our arrangement with the Burmah Oil Company.

President.—On the first occasion it was a war with the indigenous company.

Mr. Heathcote.—Yes.

President.—On the other two occasions it was a war against the Standard Oil Company into which the indigenous industry was drawn.

Mr. Heathcote.—In 1911.

President.—And also in 1927.

Mr. Heathcote.—Yes.

President.—Therefore so far as that is concerned, you are not on the same footing as the Standard Oil Company from the point of view of the indigenous industry; that is to say, you have done more damage by your wars to the indigenous industry than the Standard Oil Company by direct action.

Mr. Heathcote.—Yes, by direct action.

President.—What could the Standard Oil Company do if you started the war? Do you mean to say that they must surrender without a fight?

Mr. Heathcote.—I don't think they need surrender without a fight. They have had plenty of opportunities of showing their desire to avoid dragging the indigenous industries into trouble.

President.—How could they? All the three times—twice anyhow—you started the war. What were the Standard Oil Company to do?

Mr. Heathcote.—At the outset they might have to fight. But immediately conversations started as to how the war was to be ended, the Standard Oil Company were given plenty of opportunities of ending the war if they were prepared not to be so greedy.

President.—Their case is that they have built a market which you want to take away from them.

Mr. Heathcote.—We don't want to take away from them what they have already got; we want to take a part of the market which they will get.

President.—Your position is this. The Standard Oil Company has got 25 or 26 per cent. of the market. That percentage is too large for them and therefore you must make them surrender a portion of it.

Mr. Heathcote.—I don't think we would regard 25 per cent. too large were it not for our arrangement with the indigenous oil companies which prevents us from increasing our share at the same time as the Standard Oil Company increase theirs.

President.—You regard their share as 25 per cent., don't you?

Mr. Heathcote.—We regard it as 74 per cent.; our share of the trade is 26 per cent.

President.—I mean 26 per cent. of the total trade?

Mr. Heathcote.—That is right.

President.—They have been here many years before you.

Mr. Heathcote.—I don't think so.

President.—They have been selling their superior oil in India long before you.

Mr. Heathcote.—Before the Asiatic Petroleum Company was formed the Royal Dutch Oil Co. and Lac Shell Trading and Transport Co. used to sell oil in India independently and superior oil too.

President.—So far as the Standard Oil Company are concerned they have never tried to capture the market. Their case is that they have stuck to the market where there was demand for their superior kerosene which was not supplied by any of the indigenous companies.

Mr. Heathcote.—That is another slight misstatement. The Burmah Oil Company has got superior oil which is quite good oil.

President.—But the market has not thought so, so far. If the market thought so the Standard Oil Company would not be here.

Mr. Heathcote.—The indigenous company has been making superior oil for many years.

President.—They have not convinced the market yet. Why should the Standard Oil Company be now asked to surrender that portion of the market which they have built for themselves in the last 35 years so that you may come in?

Mr. Heathcote.—This war started over the Russian oil. It is not entirely a question of the Standard Oil Company's share of the Indian market. This war was brought about by the import of Russian oil.

President.—So far as we are concerned we are not going into that question in this enquiry.

Mr. Heathcote.—I think that is the essential point.

President.—If we were to go into that question in this enquiry we must have much more material as to what the rights of the Dutch Shell Group are in that oil and so forth. We cannot decide on that. That is beyond us.

Mr. Heathcote.—But that is the most essential point. Had it not been for the import of Russian oil the war would never have started.

President.—We must hear both sides of the question before we pass judgment upon it. We cannot merely take your statement that they confiscated the properties of this company as correct without hearing Soviet Russia. What has the indigenous industry got to do with your complaint against Soviet Russia? You are dragging the indigenous industry into this war because you have some grievance against Soviet Russia.

Mr. Heathcote.—Supposing the Asiatic Petroleum Company had no arrangements with the Burmah Oil Company; supposing it was a free company like the Standard Oil Company which is trading for what it can get as its share of the Indian trade and supposing—which is most unlikely—the Asiatic Petroleum Company as a separate trading company was only able to get 24 per cent. of the import trade while the Standard Oil Company got 76 per cent., the Asiatic Petroleum Company would not have made the war had it not been for the Standard Oil Company transferring the market which has been given to its American oil to the Russian oil.

President.—They sell Soviet oil as Standard oil just in the same way as you sell your oil as Burmah oil. What difference does that make? If they sold Soviet oil as Soviet oil in this country that might be something. But they sell it as Standard Oil Company oil. That being the position what difference does it make from the point of view of the indigenous industry?

Mr. Heathcote.—It makes a lot of difference because the Standard Oil Company knows that our arrangements with the indigenous oil companies make it very difficult for us to break prices and they have been steadily increasing their gallonage for the last several years and have got a share of the import trade much larger than they have in any other eastern country *vis-a-vis* the Asiatic, knowing that the Asiatic will not break prices while they have arrangements with the indigenous industry.

President.—But now the Asiatic has broken it.

Mr. Heathcote.—Yes.

President.—You claim that you are on a better footing and that therefore you ought to be differently treated.

Mr. Heathcote.—We don't want any protection at all. We are explaining in what way we differ from the Standard Oil Company. What I say is that we want to have it clearly understood that the apparent fault on our part of breaking our prices has been really brought about by the Standard Oil Company.

President.—The Standard Oil Company having purchased this Soviet oil?

Mr. Heathcote.—Yes.

Mr. Mathias.—I am not quite sure that I have grasped the position quite clearly. In all the previous price wars which you had with the Standard Oil Company, they were importing American oil?

Mr. Heathcote.—Yes.

Mr. Mathias.—Then you and the indigenous industry were protected by the freight from America and other charges which amounted roughly to about 120 per cent. protection on the gulf prices?

Mr. Heathcote.—Yes, but I cannot check that figure exactly.

Mr. Mathias.—The chances were, in case of a fight, that you would always have an advantage over the Standard Oil Company?

Mr. Heathcote.—Yes.

Mr. Mathias.—Am I right in thinking that this purchase of Soviet oil has made the position rather difficult? At that time the Standard Oil Company were never in a position to initiate the war. As soon as they purchased Soviet oil, apart from the fact that they bought it cheap, they got an advantage in freight. That put them in a different position because if they wished it would enable them to initiate a trade war.

Mr. Heathcote.—Yes, it would give them a better prospect of success.

Mr. Mathias.—Am I right in thinking that behind this question of Soviet oil there is the further question whether in these changed circumstances it is not advisable for you to take the bull by the horns and force the Standard Oil Company to come into some agreement on the lines of the agreement you have with the Burmah Oil Company by which the spheres of influence of their operations of trade will in future be defined, that is to say the protection of the indigenous industry will be recognized by them?

Mr. Heathcote.—I don't think we would have asked the Standard Oil Company to come to such tight arrangements as we have got with the indigenous producers. The object of the war is to get the Standard Oil Company to agree to a smaller share of the imported trade if they bring oil from sources other than America and moreover from sources which are still not as entitled to the Indian market as others. Dutch East Indies and Persia are better suited to the Indian market than Russia.

Mr. Mathias.—The real reason behind it was that the Standard Oil Company are now in a better position to challenge your position than they were before?

Mr. Heathcote.—Undoubtedly it had considerable effect in bringing about the war.

Dr. Matthai.—Your complaint, as far as the Standard Oil Company are concerned, is that you are prepared to allow them to retain their present gal-lonage?

Mr. Heathcote.—Yes.

Dr. Matthai.—But when the Indian demand for kerosene increases with an increase in the import trade, you think that increase should rather come to you than go to the Standard Oil Company.

Mr. Heathcote.—Yes.

Dr. Matthai.—Supposing the Standard Oil Company had been able to increase their American supply and had not purchased Soviet oil and in that

way they were able to maintain their share of the market, would there have been a *casus belli*?

Mr. Heathcote.—We were getting on together before this purchase of Russian oil, and I don't think there would have been war because we would have known that to make war would have brought the indigenous companies into it and our connection with them is such that we would not drag them into a war if we could help it.

Dr. Matthai.—Apart from that consideration you are not bound by the interests of the indigenous companies, are you? Supposing you were on a perfectly competitive basis and you had nothing to do with the indigenous companies, what would you do?

Mr. Heathcote.—If the Standard Oil Company had kept to what they had got and had not gone on increasing their percentage of the imported trade we would much rather have let things go on.

Mr. Mathias.—Supposing that this question of Soviet oil had not arisen at all but the Standard Oil Company had concessions in Africa or Arabia which were nearer than America, I take it that would put you in the same position as you are now?

Mr. Heathcote.—Yes.

President.—Which is your nearest source of supply?

Mr. Heathcote.—Borneo.

President.—How many miles is that from India?

Mr. Heathcote.—It is about 20 days sailing to Calcutta.

President.—The war is not so intensive in Calcutta. Take Bombay; that is where the war started. How many days is that?

Mr. Heathcote.—I should think 24 days.

President.—What is the distance from Batoum to Bombay?

Mr. Heathcote.—About 30 days sailing.

President.—So that you have an advantage of six days voyage?

Mr. Heathcote.—Yes.

President.—Even so you have an advantage over the Standard Oil Company?

Mr. Heathcote.—Yes.

President.—The point is this, that this question of freight really has no relevance at all so far as the selling prices in India are concerned because you don't sell the oil in India according to your freight from the source of supply but from America, and therefore the question of freight is quite subsidiary in this case. Even if the Standard Oil Company were five miles from Bombay still if it adhered to your principle that it would sell oil in India at what is called the world parity price, you would have no grievance?

Mr. Heathcote.—If they sold at American prices we would have no grievance, but they would be making extra profit which would enable them to attack us in some other market.

President.—That may be the case so far as you are concerned, but so far as the indigenous industry is concerned it gets no benefit from the freight. It gets the oil at the same price.

Mr. Heathcote.—The indigenous oil does not sell at the world market price at all.

President.—You are concerned with the indigenous oil to the extent to which you contribute to the pool. The price of that is more or less based on world parity prices subject to certain modifications. The question of freight does not come in until the foreign importer has reduced his price to his actual port of supply. Therefore the Standard Oil Company having purchased its oil at Batoum may have made no difference to you.

Mr. Heathcote.—As far as selling prices are concerned, no, but the effect of the purchase of this Russian oil, which need never have been purchased

at all, is to displace American oil from India and therefore to increase the quantity of exportable oil available in America. At any time, but more specially at a time of over-production such as there was when these Russian purchases were made, this cannot but tend to reduce American prices.

President.—Then you are benefited. If the American prices drop then your world parity prices go down and then you would get less.

Mr. Heathcote.—We should get less in other markets, where we are free, as in China.

Mr. Mathias.—Do you get less in China?

Mr. Heathcote.—No, but we would.

Mr. Mathias.—You don't now.

Mr. Heathcote.—I don't know much about China.

President.—You are a most powerful company in this part of the world?

Mr. Heathcote.—Yes, in Asia.

President.—The Burmah Oil Company also are a powerful company?

Mr. Heathcote.—Yes.

President.—I put it to you that at present, apart from the interest that the Burmah Oil Company may have in the Anglo-Persian, the Burmah Oil Company has no interest in this war.

Mr. Heathcote.—None whatever.

President.—The parties that are interested are yourselves and the Standard Oil Company.

Mr. Heathcote.—That is right.

Compensation to the indigenous industry.

President.—You have friendship with the indigenous companies. Could you not segregate these indigenous companies altogether and say "We will fight out amongst ourselves". The indigenous industry is a very small percentage excluding the Burmah Oil Company and would it not be right for you to say "You are small companies; you get out of the war. We will help you. Let us fight this out". Would not that be the right attitude for you to take if you have really this friendship with the indigenous companies?

Mr. Heathcote.—How are we going to protect them?

President.—You give them the world parity price for coming to the pool or any reasonable price which would not put them to any loss. You can say "the field is clear between ourselves and the Standard Oil Company. We will have a duel" and these people will say fight it out and pay us what is reasonable to keep us going. The war is really in your interest. Therefore as a powerful company I am putting it to you, would it not be a moral obligation on your part to say to them inasmuch as they are not going to benefit and they cannot afford to go into the war, "Here we are a big group. We will compensate you". I think if you did that, the indigenous industry simply stands out.

Mr. Heathcote.—We have compensated them already to some extent. We cannot say to them that we will compensate them to an unlimited extent.

President.—The Burmah Oil Company can take care of themselves because they have not applied for any assistance.

Mr. Heathcote.—I know.

President.—Therefore the Burmah Oil Company and the Assam Oil Company must stand together.

Mr. Heathcote.—Yes.

President.—Then the only companies that remain are three.

Mr. Heathcote.—Yes, the Hessford Development Syndicate, the Indo-Burma Petroleum Company and the Attock Oil Company.

President.—Really it is the Indo-Burma and the Attock Oil Company. The British Burma Petroleum Company are already in the pool and they

have got a better claim in a way and it is a very small matter for a big group like yours. If you did that, all this trouble that has been created may entirely disappear. These companies are very small companies. What are they—they form a very small fraction.

Mr. Heathcote.—You might just as well ask the Standard Oil Company to do this.

President.—The point is this. You want to keep your friendship up with the indigenous industry. Therefore would it not be to your interest in the long run to say "All right now we have stood by this indigenous industry. Therefore if anything happens in the future, it is the Standard Oil Company who are to blame". At present so far as your friendship goes, it has been shown rather in an indirect way. But now there is a direct opportunity of showing that you have the interests of the indigenous industry at heart and the price you may have to pay is very small.

Mr. Heathcote.—Take the case of the Attock Oil Company. Supposing they struck some real oil gushers and became a large company.

President.—Then you can always say: you no longer require assistance.

Mr. Heathcote.—What will happen to the importer? Supposing the indigenous production increased very largely, would the Standard Oil Company walk out of India?

President.—You have to fight it out. You are taking your chance. Supposing you defeated the Standard Oil Company and afterwards that happened?

Mr. Heathcote.—Supposing there was peace at any rate and it was followed by an astonishing increase of oil available to the Attock Oil Company?

President.—You are no better off after having fought the Standard Oil Company.

Mr. Heathcote.—Supposing we are satisfied with the results of the fight and that we divide the import trade half and half and then supposing that the Attock struck some big production and their production increased, so that the imported trade was very much less, would the Standard Oil Company agree to go down?

President.—When you have your treaty of Versailles you would say to the Standard Oil Company as regards the future these are the terms.

Mr. Heathcote.—They would never accept.

President.—When you have fought them and when you have signed your terms of peace, that would be one of the arguments.

Mr. Heathcote.—The Standard Oil Company would never agree.

President.—That all depends on how you fight them.

Mr. Heathcote.—I don't think it is a practical proposition.

President.—I am putting the case to you as it appears to me. I am not expressing any views.

Mr. Heathcote.—I see your point. You are asking us to subsidise those companies. Exactly where do we come in on it?

Mr. Mathias.—I understand you have already agreed to subsidise the British Burma Petroleum Company.

Mr. Heathcote.—We have agreed to subsidise them to some extent but I didn't know it until I was told so in Rangoon.

Mr. Mathias.—Could not that sort of agreement be extended to the other companies?

Mr. Heathcote.—We are not the only subsidisers to the British Burma Petroleum Company. The Burmah Oil Company themselves are subsidising to the same extent as we are.

Mr. Mathias.—Supposing you and the Burmah Oil Company—although they say they get nothing out of this war, they seem to be fighting for a one-sixth share representing their interest in the Anglo-Persian Oil Company

—supposing you and the Burnah Oil Company stood jointly in extending the agreement for compensation to the other companies?

Mr. Heathcote.—It is a suggestion. I don't say it is entirely unreasonable, but it is not a usual suggestion. Our point of view is if the indigenous producers' trade is worth protecting, it is not usual to go to a private company and ask the private company to protect it.

Mr. Mathias.—If the private companies initiate the war.

Mr. Heathcote.—In trade war is always liable to happen.

President.—Yes, if you put that question in that form. Supposing we came to the conclusion that the indigenous industry was worth supporting, because from the national point of view it was a good thing: supposing we came to that conclusion, we could segregate the two of you. Then in that case you would not be in any better position.

Mr. Heathcote.—You mean you would segregate us from the Standard Oil Company.

President.—Segregate you and the Standard Oil Company. How will that benefit you? We won't give you any advantage.

Mr. Heathcote.—I don't think we ask for any preference.

President.—Would the position of the Royal Dutch be any better?

Mr. Heathcote.—I don't say it would.

President.—It would not. It might be worse in this sense that you might lose the friendship which you have at present with the indigenous industry.

Mr. Heathcote.—Why should we lose that?

President.—Because you refused to come to their rescue after having dragged them into the war.

Mr. Heathcote.—I don't quite see how we should lose their friendship. I haven't got any idea.

President.—Supposing the Government of the country wanted to protect the indigenous industry from the point of view of the Government you would be in a different footing at that stage to what you would be if now you say to the indigenous industry, "very well, we have dragged you into the war, we now come to your rescue". If you don't lose their friendship, wouldn't that be the position?

Mr. Heathcote.—I am not quite sure that I follow really what you are saying. If the Government of India decide that the oil industry is worth protecting, they will take certain action which will result in the indigenous industry prospering or being in a better position than the foreign industry. That is the position to-day. I think you suggest as a result of the intensification in the protection which might be afforded to the indigenous industry we should lose the friendship of the indigenous industry. I don't see why we should.

President.—Naturally they will say "these people dragged us into the war. We didn't go into the war. When it came to compensating us, they say they won't".

Mr. Heathcote.—I quite see that. But don't you think that the indigenous industry would have been or may have been more or less at the mercy of outside companies for all these 23 years. If the Asiatic's and the Standard Oil Company had been fighting in India as they do fight in other parts of the world, the indigenous industry would be in a different position from what it is now.

Mr. Mathias.—They might not have come into existence and might have saved a lot of trouble.

Mr. Heathcote.—They would have been saved a lot of trouble.

Mr. Mathias.—Let me put the case from a slightly different point of view. It is to your interest to fight out the war.

Mr. Heathcote.—I think it must be.

Mr. Mathias.—And you think that it is the duty of Government to support the indigenous industry.

Mr. Heathcote.—We don't express any opinion on it.

Mr. Mathias.—You support the proposal.

Mr. Heathcote.—We say if the Government consider the industry of sufficient importance, they should protect it.

Mr. Mathias.—At any rate it is more the duty of the Government than it is the duty of your company.

Mr. Heathcote.—If protection is considered desirable.

Mr. Mathias.—Without specifying the means, it might be possible to stop the war. So you would not have the advantage of fighting out to a finish.

Mr. Heathcote.—I daresay you could devise means whereby the war was stopped.

Mr. Mathias.—In that case it would be more to your advantage presumably to fight your war to the finish and subsidise the indigenous industries than it would be to leave the matter entirely into the hands of Government.

Mr. Heathcote.—I think you cannot get away from the trade conditions. If you have in mind the idea of stopping us from trading in India, which I daresay you could, you would merely make the country run short of oil.

Mr. Mathias.—You can trade in India under certain conditions.

Mr. Heathcote.—I don't think we should object.

Mr. Mathias.—If you want Government action, you don't know what that action is going to be.

Mr. Heathcote.—I see your point.

Mr. Mathias.—From your point of view it might be a better solution to subsidise these industries rather than to let Government take whatever measure they like.

Mr. Heathcote.—I think our view would be this. I have not had experience—I know there are other countries in the world where that kind of thing has been done—but I think that as long as Government's action is not to the disadvantage of the country as a whole, we would follow the rules which might be laid down.

Mr. Mathias.—It might be to your disadvantage and possibly to the advantage of the Standard Oil Company.

Mr. Heathcote.—I don't think it will be to our disadvantage and to the advantage of the Standard Oil Company.

Mr. Mathias.—It might be.

Mr. Heathcote.—That would mean preferential treatment as between two foreign companies which certainly we should not approve of.

Dr. Matthai.—Has any proposal been made to you by the smaller companies for any assistance?

Mr. Heathcote.—Not that I know of.

President.—The British Burma Petroleum Company, I take it, have been compensated.

Mr. Heathcote.—So I have heard. I don't know. As a matter of fact I have seen that they were being compensated in some papers of Mr. Gray in Rangoon. He got it from London. So I take it, it is quite correct. What the compensation is, I don't know.

President.—Their proposal is that up to the 31st December, they should get the previous prices.

Mr. Heathcote.—Yes.

President.—As regards the subsequent period they are to get 50 per cent. of the difference between the Indian price and the Chinese price.

Mr. Heathcote.—It is the same as the Burmah Oil Company. We are subsidising the Burmah Oil Company to the extent of paying them half the

difference between the prices realised in India and the prices we realise in China.

Mr. Mathias.—It seems to be rather invidious to leave out the smaller companies.

President.—There are only two small companies.

Mr. Heathcote.—The Attock Oil Company have a direct agreement with the Burmah Oil Company which we support. If we pay the Burmah Oil Company, it is up to the Burmah Oil Company to pay the Attock Oil Company which is more under the wing of the Burmah Oil Company. The Burmah Oil Company should pay them rather than we.

President.—The only company that is left out is the Indo-Burma Petroleum Company.

Mr. Heathcote.—Yes, the Indo-Burma Petroleum Company and the Attock Oil Company are fairly alike.

President.—I have asked Mr. Gray about these Chinese prices. There is no war in China, I take it.

Mr. Heathcote.—I cannot say. The prices may be considerably lower, because of the internal troubles in the country.

President.—Prices may be higher.

Mr. Heathcote.—They may be, but I think they may be lower, so that they may be able to sell big lots without the trouble of an organisation.

President.—Could you find them out?

Mr. Heathcote.—Yes.

President.—We should like to know what this 50 per cent. difference between the price realised here and the price realised in China is. If you take the world parity prices in the same way there as you have here for superior and inferior oil, the Chinese prices will be substantially higher than the average prices here.

Mr. Heathcote.—Yes.

President.—They would be practically re-imbursed.

Mr. Heathcote.—If there has not been any change in the Chinese prices, that would be the case, I have little doubt.

Mr. Mathias.—This agreement to compensate the Burmah Oil Company, is it from the date of the price war?

Mr. Heathcote.—I think so.

Mr. Mathias.—In a sense that was a consideration for the Burmah Oil Company agreeing to come in.

Mr. Heathcote.—Must have been.

Mr. Mathias.—So that in a way they have got some inducement to enter into the war.

Mr. Heathcote.—Yes.

Mr. Mathias.—Then they are not poor victims dragged by your chariot wheels.

Mr. Heathcote.—On the other hand I don't think this arrangement is going on for as long as the war lasts.

Mr. Mathias.—It goes on.

Mr. Heathcote.—Yes, but for a period only. For instance the pool arrangements were ended by this war and have been replaced by the Burmah Shell. Under the pool arrangements we have to give notice and it might be that this arrangement for compensation would only go on as long as that notice would have gone on.

Mr. Mathias.—We were not told that the agreement to compensate the British Burma Petroleum Company was terminable at any time. We were given to understand that it would continue during the war.

Mr. Heathcote.—I don't know that it won't.

Mr. Mathias.—They have not told us any date.

Mr. Heathcote.—I don't know. I am merely making a suggestion that it will only go on for as long as the pool's notice would have gone on.

Mr. Mathias.—That is for six months.

Mr. Heathcote.—Yes.

Dr. Matthai.—When does the six months expire?

Mr. Heathcote.—It would have expired by now.

Mr. Mathias.—It would have expired sometime by the end of March.

Mr. Heathcote.—Yes.

Mr. Mathias.—As a matter of fact this compensation is still going on. We were informed in April about this and if there had been any change, they would presumably have told us.

Mr. Heathcote.—The latest accounts received in April might have been January accounts. A mistake might have arisen in that way.

Mr. Mathias.—Could you let us know the full terms of the agreement?

Mr. Heathcote.—I can get it for you. Do you want it only for the British Burma Petroleum Company?

Mr. Mathias.—Both for the British Burma Petroleum Company and the Burmah Oil Company.

Mr. Heathcote.—Yes.

Mr. Mathias.—If you are not able to get the Chinese prices, perhaps you might give the approximate monetary effect of the agreement.

Mr. Heathcote.—Over a month.

Mr. Mathias.—Yes, per month.

Mr. Heathcote.—Yes.

Mr. Mathias.—You are quite clear that these are the only two companies to whom compensation is given.

Mr. Heathcote.—Yes, as far as I know.

Mr. Mathias.—Could you find that out too?

Mr. Heathcote.—Yes.

Dr. Matthai.—You make it clear in that statement whether this 50 per cent. is calculated on the total sales for the time being and how exactly is this calculated, on what sort of output or sale.

Mr. Mathias.—It would be on actuals.

Mr. Heathcote.—The accounts will show what the Burmah Oil Company is entitled to get out of the pool for their oil on an *ex* installation price basis and then to the extent that it is lower than the Chinese return on an *ex* installation basis, they are paid half.

President.—We want to know whether the Burmah Oil Company, for example, get their 50 per cent. on their sales *plus* the Assam Oil Company's sales.

Mr. Heathcote.—The Assam Oil Company come in very slightly into the pool.

Mr. Mathias.—I suppose this compensation was estimated on some fair and equitable basis. I imagine that your company in fixing the amount of compensation fixed it at a sum that they thought would fairly enable the companies to carry on their operations.

Mr. Heathcote.—I should not think so.

Mr. Mathias.—Is it purely arbitrary?

Mr. Heathcote.—Yes. The Chinese market is reckoned as our home market. It is a sort of standard market as far as we are concerned.

President.—I am very glad to hear this. It puts the position of the Asiatic Petroleum Company in a much better light because all these days I have been trying to ascertain what contributions the Asiatic Petroleum

Company were really making towards the war. I am very pleased that there is this arrangement.

Mr. Heathcote.—Do you mean the arrangement regarding compensation?

President.—Yes. Obviously it puts the company in a somewhat different light.

Mr. Heathcote.—Yes.

President.—The only company that stands out is the Indo-Burma.

Mr. Heathcote.—Yes.

President.—I take it that in the Chinese market also there must be some pool between you and the Standard Oil Company of New Jersey.

Mr. Heathcote.—No.

President.—If there is no pool, is there any arrangement between you both?

Mr. Heathcote.—I don't think that the Standard Oil Company of New Jersey are selling in China. It is the Standard Oil Company of New York that sell in China.

President.—There is no war there between you both, is there?

Mr. Heathcote.—There is a sort of permanent competition. There is no breaking of rates. But we are very definitely free competitors in the Chinese market.

President.—Do prices vary very much there or do they more or less remain the same?

Mr. Heathcote.—Do you mean has there been much fluctuation?

President.—Yes.

Mr. Heathcote.—I could not say.

President.—Even here though the Standard Oil Company were not in the pool we had it in evidence that they communicated with the Standard Oil Company.

Mr. Heathcote.—We had a sort of friendly arrangement which did not amount to anything definite at all.

President.—You might have the same arrangement in China.

Mr. Heathcote.—It is generally understood that we sell at level prices.

Dr. Matthai.—Where do the Standard Oil Company of New Jersey sell their oil?

Mr. Heathcote.—I do not know.

Dr. Matthai.—It does not come into the Chinese market.

Mr. Heathcote.—I could not say where they send their oil. They have got a concession in Sumatra but I do not know where they send that oil at all.

President.—I just want to understand the position of the Anglo-Persian Oil Company. The entering of the Anglo-Persian Oil Company into this market is a recent development.

Mr. Heathcote.—Yes, as far as kerosene is concerned.

President.—Petrol is not imported at all.

Mr. Heathcote.—No.

President.—But I think they have been importing fuel oil.

Mr. Heathcote.—Yes.

President.—What market do the Anglo-Persian cut into?

Mr. Heathcote.—Their oil is sent to Karachi, Bombay, Madras and Calcutta.

President.—Whose market does it take?

Mr. Heathcote.—It is being made the best use of. It is not confined to any particular market. It is sold where it goes best.

President.—Just before the war the position was this. The Standard Oil Company supplied a certain quantity and then the pool supplied the rest.

Mr. Heathcote.—Yes.

President.—The market was divided between the pool and the Standard Oil Company.

Mr. Heathcote.—That is right.

President.—Now the Anglo-Persian have come in. What market have they got?

Mr. Heathcote.—The Asiatic are giving way to the Anglo-Persian to the extent of taking only 50 per cent. of what the Anglo-Persian and the Asiatic can supply. The Asiatic are retiring in favour of the Anglo-Persian to the extent of half the foreign imports.

President.—Have the Asiatic got any direct interest in the Anglo-Persian or are they independent altogether?

Mr. Heathcote.—Quite independent.

President.—They have nothing to do with the Royal Dutch Shell Group.

Mr. Heathcote.—Nothing.

President.—What is the idea of your retiring in favour of the Anglo-Persian?

Mr. Heathcote.—It is part of the case of the Asiatic. The Anglo-Persian are the friends of the Burmah Oil Company and have been described as a daughter company of the Burmah Oil Company. Obviously if the Asiatic fall out with the Anglo-Persian by not making room for them in the Indian market, they cannot keep friendly relations with the Burmah Oil Company. If any arrangement is going to be made, there can be no other arrangement than the Asiatic retiring in favour of the Anglo-Persian. In doing so, it will be understood between them that their object is to reduce the Standard Oil Company's trade.

Mr. Mathias.—When was this agreement made enabling the Anglo-Persian to come into the Indian market?

Mr. Heathcote.—Early this year.

Mr. Mathias.—That was part of the consideration shewn to the Burmah Oil Company for entering into this war. It was some inducement to them. The Anglo-Persian being a daughter company a favour shewn to the daughter is a favour shewn to the mother.

Mr. Heathcote.—I don't know what desires the Anglo-Persian have had on the Indian market.

President.—The Burmah Oil Company gave us some figures about the quantity of kerosene imported into India by the Anglo-Persian Oil Company. They say "48,800 tons have been received from the beginning of this year to date. 25,500 tons are expected before the end of June. This is all superior kerosene (during the war)". They would be taking part of the Standard Oil Company's market.

Mr. Heathcote.—I think that is right.

Soviet oil.

President.—There are one or two questions about the Soviet oil as regards prices. We have not been able to get any information from the Standard Oil Company on that point. But we have told them that if we chose—if do not know what we might do when we come to write the report—we should take what you have been stating as proved because they have not contradicted it. If we take this price of 5 cents that you urge as the price at which they have purchased the oil, that 5 cents happens to be the gulf price about July—about the time this agreement is supposed to have gone through.

Mr. Heathcote.—It was earlier than that.

President.—A little earlier. The earliest figure was 5 cents. If that was the market price at that time, could you really urge that they bought it too cheap?

Mr. Heathcote.—You mean to say that they actually bought it at the market price.

President.—Your allegation is that they bought it too cheap.

Mr. Heathcote.—We allege that they bought it considerably below the market price.

President.—According to the information we have got, the Gulf price was 5 cents.

Mr. Heathcote.—That was supposed to be the price at which they bought it.

President.—In June or July the Gulf price was 5 cents. Then you come and say that at that time they paid a cheaper price. This controversy started, I think about August or September between you both in America.

Mr. Heathcote.—Yes, in August.

President.—About that time the price was 5 or 5½ cents. Their case is that they paid the actual market price.

Mr. Heathcote.—You want me to prove that.

President.—Yes, whether their contention is more or less correct or not.

Mr. Heathcote.—I do not know where you got your Gulf prices from.

President.—These are the prices given to us (shows a statement). The whole point is this. I think it is admitted last year the production of the United States alone was about 12½ per cent. more than the previous year.

Mr. Heathcote.—Yes.

President.—Consequently the market was more or less demoralised.

Mr. Heathcote.—Undoubtedly.

President.—The Standard Oil Company saw that the market was going down. The Soviet Government of Russia also saw the condition of the market and said to themselves "We do not know what the market is going to be. It is a long term contract and we will gamble on it one way or the other". They said "All right, a long term contract extending over three years for a large quantity, the price being 5 cents". You cannot really say that that is not a way of doing business.

Mr. Heathcote.—One cannot say.

President.—As a business proposition a man may say all right.

Mr. Heathcote.—I should not imagine that they would be the general principles upon which big contracts are made in the oil world.

President.—The Soviet Russia feels this way: "We are the vendors. The market is very dicky. We have not got the means to wait. We have got a chance now and 5 cents is good enough for us". The Standard Oil Company saw that at 5 cents they were not taking a very big risk. Therefore it is a way in which businessmen might act.

Mr. Heathcote.—Yes, if the market price at the time the Soviet oil was sold was actually 5 cents.

President.—We have no data as to when exactly the arrangement was made. All that we know is that the Royal Dutch were negotiating with those people by about the end of 1926 or something like that and that they dropped the negotiations—I mean everybody else except the Standard Oil Company dropped the negotiations.

Mr. Heathcote.—They were negotiating on a certain basis.

President.—Then the Standard Oil Company said to themselves "these people did not want to go into business. We will do the business" and entered into the contract. You must put yourself in the position of a producer of the oil who sees that there is this over-production and fears that the market may get worse. In that case can you really say that that was a thoroughly bad transaction looking at it that way?

Mr. Heathcote.—If the market price at the time the contract was made was 5 cents., nothing could be said.

President.—That is what these people say. .

Mr. Heathcote.—We will try and find out when the contract was made and what was the price current then.

President.—It is easy for you to show that prices were very much above that.

Mr. Heathcote.—That I will try and find out.

President.—So far, the evidence that we have got does not establish that point.

Mr. Heathcote.—You say that we have not established it.

President.—Yes.

Mr. Heathcote.—We will try and obtain figures for you to substantiate that. I have been asked to say in regard to Mr. Guthrie's evidence about the negotiations of ours. He said I believe—at any rate so was he reported in England—that we were now negotiating with them for the division of the Russian oil.

President.—He said so.

Mr. Heathcote.—As if we were anxious to get the oil.

President.—That was the suggestion I suppose.

Mr. Heathcote.—And also that we had said that the Standard Oil Company would have to pay into a Trust Fund a certain percentage

President.—Five per cent. on the f.o.b. price.

Mr. Heathcote.—Five per cent. on the purchase price which would go eventually to compensate the original investors.

Mr. Mathias.—That would apply to all the companies.

President.—There were the Anglo-Persian, the Royal Dutch Shell Group and each was to contribute 5 per cent. to the pool to compensate the original and the Standard Oil Company of New York. Each was to take one-third owners.

Mr. Heathcote.—Did he make that clear to you?

President.—Yes, that was how I understood it.

Mr. Heathcote.—I thought that he led you to suppose that they were the only people who were asked to contribute 5 per cent. As a matter of fact we were not keen about the Russian oil. The Standard Oil Company have alleged—I don't know whether they have said that to you or not but they have alleged in other places—that the 5 per cent. which we have asked them to contribute to the trust fund is too high an amount to contribute and makes the oil unprofitable and it is for that reason and to show that it is not unprofitable that we have suggested that we will contribute 5 per cent. if we get a third share.

Dr. Matthai.—Is that proposal still under consideration or has it been definitely turned down?

Mr. Heathcote.—I think it has been turned down by the Standard Oil Company, but it is still open from our point of view.

President.—There was a letter written by a man named K.—something in the *Petroleum Times* in which it was stated that the Royal Dutch Shell Group made an offer to the Soviet that they would buy all the oil the Soviet could supply at a price 6 per cent. below world parity and as the Soviet refused this offer this rate war started. The negotiations fell through.

Mr. Heathcote.—That offer was made with the idea that this 6 per cent. should go to the compensation fund.

President.—I don't think he stated that in his letter.

Mr. Heathcote.—Negotiations were being carried on with the Russian Government on behalf of the Standard Oil Company of New York as well as of ourselves, not by ourselves direct.

President.—Are not the Standard Oil Company of New Jersey interested in this confiscation?

Mr. Heathcote.—Not as original concession-holders, but negotiations were going on before these purchases were effected that the Soviet should put into the trust fund a certain amount. The Royal Dutch Shell were the biggest owners of oil leases in Russia and because the various owners of oil leases could not agree how the trust fund should be divided amongst them, the Royal Dutch Shell did not take part in the negotiations with the Russian Government for the purchase of the oil on the basis of a trust fund being created. The negotiations were accordingly undertaken by another party. These other people were known to the Standard Oil Company. They knew very well that negotiations were being carried on in which the Royal Dutch Shell had an interest although they were not actually taking part in the negotiations. The negotiations fell through because the Soviet Government would not set aside a part of the purchase money for the trust fund. The Standard Oil Company then carried on negotiations direct without the stipulation of a trust fund being created.

President.—This man—I am afraid I have got the wrong number of the *Petroleum Times* with me, it is in the paper of the 10th December—stated that the Royal Dutch Shell Group wanted a monopoly of the Soviet oil at a price which was 6 per cent. below world price, that the Soviet refused the offer and that led to the war.

Mr. Heathcote.—I don't think that is true.

The rate war.

President.—As regards the history of this war I think it was in Bombay that you made the first cut?

Mr. Heathcote.—Yes.

President.—On the 21st September you sent out your first circular. In this letter you say "immediately on receipt of this letter you are to reduce the price of superior and inferior oil, packed and bulk, all brands, by one rupee", and you say "we would repeat that the object of this reduction is to take the greatest possible trade from the Standard Oil Company in the shortest possible time."

Mr. Heathcote.—We don't deny that we caused the first break in price.

President.—On reading the circulars one gets the impression that this thing about the Soviet had very little to do with the war. You simply started with the idea of getting as much business as possible from the Standard Oil Company.

Mr. Heathcote.—It likely would create that impression because it is written to Indian agents and it is not necessary to take them into our confidence in the matter as they do not care whether the oil comes from Russia or anywhere else.

President.—How many cuts have you made altogether?

Mr. Heathcote.—Originally it was Re. 1, then the Standard Oil Company brought their prices down by Re. 1 and we reduced prices by a further 4 annas. In Bombay it went down to about Rs. 2-8-0 below the original price. From the original price there were series of cuts, various amounts in different places. Probably Kathiawar and Cutch were the lowest markets.

President.—What was the cut there?

Mr. Heathcote.—Over Rs. 2-8-0, may be even Rs. 3.

Mr. Mathias.—Actually your universal cut was Rs. 1-4-0?

Mr. Heathcote.—Actually in Calcutta where the war came along later than in Bombay we started by a break of Rs. 1-4-0 and it has never been any bigger.

Mr. Mathias.—What is the present cut in price apart from the question of secret rebates and remissions?

Mr. Heathcote.—When I left India for Burma we were just about back to the original Rs. 1-4-0 pretty well all over India.

President.—The Standard Oil Company say that they are back to the first reduction of Rs. 1-4-0 except in Bombay where the average is Rs. 1-10-0. What is the position now?

Mr. Heathcote.—Since I left India to come here the price of inferior oil has been raised by 4 annas and the price of superior reduced by 4 annas so that the cut is Rs. 1-8-0 for superior oil. That is set off by the rise in the price of inferior so far as the indigenous companies are concerned.

President.—In fact the Burmah Oil Company also manufactures more inferior than superior oil.

Mr. Heathcote.—Yes.

President.—That change in the rates came into effect on the 3rd of May?

Mr. Heathcote.—That is right.

President.—We may take it now that as regards superior oil the average cut is Rs. 1-8-0 and as regards inferior it is Re. 1.

Mr. Heathcote.—Yes.

President.—Do you expect that would be about the level at which the price will remain now?

Mr. Heathcote.—No. I think there would be another cut in superior and increase in inferior.

President.—That means a difference of 14 annas. That will hurt the indigenous industry more than you.

Mr. Heathcote.—Not at all because they don't manufacture enough inferior to meet the demand; they still have to import foreign inferior oil.

President.—Would it not be possible for you in combination with the indigenous industry to more or less narrow down the field of war in this way that you would allow them to increase their supplies of inferior and you would fight the Standard Oil Company along the lines of the superior oils merely?

Mr. Heathcote.—I don't think you can keep them apart.

President.—Supposing you did it this way; each company had, say, twice as much inferior as superior. The proportion now is about half or a little more than half. What I mean is this: The indigenous industry is allowed to sell twice as much inferior as superior. You raise the price of inferior by 7 annas and reduce the price of superior by 4 annas. In that way they would be better off by about 4 annas on the whole production.

Mr. Heathcote.—That is part of our idea in the present alteration of prices. The more you raise the price of inferior and the more you reduce the price of superior, more people who have been in the habit of buying inferior oil will transfer themselves to superior oil so that the sale of inferior oil will fall off.

President.—You can give them the full market for inferior oil and in that way you can help the indigenous industry by keeping them out of the field of war.

Mr. Heathcote.—That could be done.

Dr. Matthai.—At present the differential is 14 annas. What is the minimum difference that you could keep without serious danger of substitution?

Mr. Heathcote.—There is a danger of substitution even with a differential of 14 annas.

Dr. Matthai.—There was a time when the differential was 4 annas.

Mr. Heathcote.—Yes, but the prices were very much lower then than they are now. The trade in India was also increasing very much more quickly so that the increase of trade in inferior was greater than the transfer from inferior to superior. We cannot afford to have a small differential because the smaller the differential the more we lose by transfer from inferior to the Standard Oil Company's superior.

Dr. Matthai.—You said you are going to make further cuts in superior prices and further increase in inferior prices?

Mr. Heathcote.—Yes.

Dr. Matthai.—In considering your future cuts you must have some kind of idea as to the minimum differential that you could make?

Mr. Heathcote.—Yes.

President.—Apart from substitution the point may arise in this way that to the extent to which the Indo-Burmah Oil Company are the only company, they may be affected in this way, that they will have to sell more or less the same quantities and the same qualities in their own brands.

Mr. Heathcote.—Yes, it will hit the Indo-Burmah Oil Company.

President.—I suppose they can just alter their production?

Mr. Heathcote.—Yes.

President.—Your imports form only a small percentage of the total and therefore the scope for variation is not very much.

President.—There is very little. In fact the Asiatic Petroleum Company will lose by this move. At present the trade is much larger than in normal times because the prices are low and extra effort is used to find a market for inferior kerosene.

Dr. Matthai.—Has the trade increased or your stocks increased?

Mr. Heathcote.—I think the trade has increased.

Dr. Matthai.—What is the extent of the rebates, secret commissions and so on?

Mr. Heathcote.—The Standard Oil Company probably knows how we work it out! But we don't want it to be published.

Mr. Mathias.—These need not go on the record, but you can let us know.

(Mr. Heathcote described how these secret rebates and commissions were worked out.)

Mr. Mathias.—We would have to add something rather less than 4 annas to these prices if rebates, etc., were reduced. These secret rebates, have they been successful in getting you more trade? The Standard Oil Company say they have lost only 2 per cent. If you are going to have a long trade war is it sound to have secret rebates?

Mr. Heathcote.—We have been out for blood more or less but when things settle down, as they are settling down, we shall undoubtedly cut these rebates down.

Mr. Mathias.—Supposing the war lasts for another year would these rebates be reduced?

Mr. Heathcote.—Yes.

Mr. Mathias.—What difference in price could we expect on that?

Mr. Heathcote.—We would give them concessions in freight, cartage and so on rather than cut prices by rebates. Such concessions might average 2 annas per unit.

Mr. Mathias.—That would mean that the pool, for instance, instead of getting Rs. 3-5-7 would get Rs. 3-7-7 when things settle down?

Mr. Heathcote.—Yes.

President.—I think the average price which the pool has given includes these rebates?

Mr. Heathcote.—Yes.

President.—What I don't understand is this. The Standard Oil Company claim that their prices are from 4 to 14 annas higher than yours. I do not know how they make it out. How do you explain that?

Mr. Heathcote.—I don't think that is true.

President.—Is it a fact that their oils in the market ordinarily fetch a higher price in the market particularly in Karachi?

Mr. Heathcote.—Yes.

President.—Their price is 4 to 14 annas higher?

Mr. Heathcote.—Their prices and ours are identical. The selling price we give to our agents and they give to their agents are identical but their agents are able to redistribute their oil at prices varying from 2 to 6 annas a unit higher. That is profit to the sub-agent, not profit to the Standard Oil Company.

President.—That represents in the opinion of the consumer the superiority of the oil?

Mr. Heathcote.—That does not hold by any manner of means all over India and I should say is confined to the Punjab and to some lesser extent to the United Provinces.

President.—What they probably mean is that owing to the rebates that you give you are underselling them by 4 to 14 annas compared to your pool price.

Mr. Heathcote.—What they have done sometimes is that they have given their agents a very low price for the oil on the understanding that the agent will sell it to the dealer and make the dealer sell it at so much higher price, thereby insisting upon the agent making a profit.

The retail rates of the Standard Oil Company's oil might in this way be 10 annas or 12 annas higher than the rates at which the Standard Oil Company's sub-agent is paying to the Standard Oil Company for his oil. We endeavour to make our sub-agents sell at the same price as they pay us for the oil, so that competition between the sub-agents would generally force the Standard Oil Company's Sub-agent to reduce his prices to our level and to disgorge the profits which the Standard Oil Company would have liked to see him make.

President.—What I want to know is whether the price of Rs. 5-12-0 which was the pool price for the superior is the average price, because I haven't got the previous figures. I think the price of Waterlily is very much higher.

Mr. Heathcote.—That is a higher grade. That is not an ordinary marketing grade.

President.—What about the chukker?

Mr. Heathcote.—That is an ordinary grade.

President.—That is Rs. 5-12-0.

Mr. Heathcote.—Yes, that is, in bulk.

President.—Any port?

Mr. Heathcote.—Yes.

President.—I find that the prices given in the *Petroleum Times* are higher than the prices we had.

Mr. Heathcote.—I think that the *Petroleum Times* printed the rates and kept them the same until they were advised by us of a change. Somehow or other it was overlooked to advise them in London of this alteration in price. For weeks and weeks after the war started you will still find the same prices printed in the *Petroleum Times*.

President.—You find the pool prices higher than the earlier half of 1927. We haven't got the pool selling prices from any of the companies.

Mr. Heathcote.—I don't think there was any alteration in prices.

President.—This Rs. 5-12-0, when was it fixed?

Mr. Heathcote.—I think it was fixed in the latter half of 1926. I don't think there has been any change for a considerable time.

Dr. Matthai.—There is a suggestion in the Burmah Oil Company's representation that this Rs. 5-12-0 was rather higher than the price for the previous half year.

Mr. Heathcote.—I am afraid I have not been in very close touch with selling prices, although I ought to be. I don't think there has been any change in the selling price.

President.—If I take the world parity prices in September, for instance 5½ cents., that is for the superior oil, it comes to about Rs. 4-10-0.

Mr. Heathcote.—Yes? (Not affirmative.)

Alleged benefit to the consumer.

President.—Your actual selling price was then Rs. 5-12-0. So there is a difference of Rs. 1-2-0. Your inferior was being sold at Rs. 4-6-0, i.e., one rupee eight annas less than the superior oil—so that your inferior oil was being sold at a price just four annas below the world parity price for superior oil.

Mr. Heathcote.—Of course the gulf price on which you base your world price changes. We try and avoid fluctuations as much as possible. If you keep chopping and changing, it generally upsets the market. We don't alter prices more than we have to over comparatively long periods.

President.—The point that is not quite clear to me is this: it has been claimed that by this pooling arrangement the price of kerosene has been reduced to the consumer. I don't see that these figures establish it. If the world parity price for superior were Rs. 4-10-0, the world parity price for inferior would be Rs. 4-6-0.

Mr. Heathcote.—Why Rs. 4-6-0 for the world parity?

President.—Where is the difference? You sell more than half of your superior at Rs. 5-12-0.

Mr. Heathcote.—We sell a third.

President.—I am talking of the pool.

Mr. Heathcote.—They are selling about ⅓rd inferior and ⅓rd superior roughly. Your figures would show that they are making a profit of Rs. 1-2-0 on ⅓rd.

President.—They are losing on the other.

Mr. Heathcote.—They are losing 4 annas on the other.

President.—4 annas must represent the difference in quality.

Mr. Heathcote.—The Burmah Oil Company are the only people who have got the oil. You cannot fix any other price for it.

President.—When a man can get the superior oil for Rs. 4-10-0, you are giving him inferior oil for Rs. 4-6-0 which is not cheaper.

Mr. Heathcote.—It is 4 annas cheaper. If he had no cheap oil, he would have to buy the superior oil at Rs. 4-10-0.

President.—But he will get a better quality.

Mr. Heathcote.—Yes.

President.—What benefit does he get?

Mr. Heathcote.—He gets a cheaper oil. It suits just as well. Probably 80 per cent. of the oil in India, if not more, is burnt in open lamps (dubbies).

Mr. Mathias.—On the other hand if you were really to sell your pool oil on strict world parity, you would sell your superior oil at Rs. 4-10-0. In order to get revenue from inferior oil which is a more profitable oil than fuel oil and in order to maintain the volume of trade for inferior oil, you would have to sell it on a differential of Rs. 1-6-0. Therefore the price of inferior oil must be Rs. 3-4-0, but you are charging him Rs. 4-6-0, so that in a way from one point of view you are charging him more than would be sufficient for the company's profit.

Mr. Heathcote.—There is a good deal in it. You have picked out the very lowest gulf price of 5 cents on which you have worked out your rate of Rs. 4-10-0. Probably a fortnight later it was 6 cents and a month later it might have been 7 cents. There have been variations. You cannot pick out the lowest and say this is the selling price.

President.—Supposing you take the average for 6 months, it doesn't make very much difference. At 5.75 cents—that is more than the average—it comes to Rs. 4-10-3.

Mr. Heathcote.—Is that more than the average?

President.—I think it is. If you take the whole year's average or the 6 months' average, it comes to Rs. 4-10-3. If the difference is 4 annas in quality between the superior and inferior.

Mr. Heathcote.—I don't know how we arrived at the prices of Rs. 5-12-0 and Rs. 4-6-0.

President.—One of the claims put forward by the pool is this that the consumer benefits by the existence of the pool and I am trying to find out in what way he does.

Mr. Heathcote.—How these prices are fixed, how the calculations are made I cannot say. Certainly it is a fact that 195,000 tons of the Burmah Oil Company goes into the pool at Rs. 3-6-0. Those prices of Rs. 5-12-0 and Rs. 4-6-0 must have been made to allow for a loss made by the pool during the previous half year.

President.—This is an important point in this enquiry in one way. I have told Mr. Gray. I haven't yet got the figures. You will have to show, take 5 years, that the consumer was really getting something out of the companies by this arrangement and not from the consumer of the superior oil entirely.

Mr. Heathcote.—I see, you have asked for that information.

President.—I have. I want to know whether you have anything to say, because you are also a member of the pool.

Mr. Heathcote.—I cannot throw any light beyond the fact that I know the basis on which prices are worked. We used to have the details of the prices in India probably for the first 3 or 4 years of the pool's existence but now the prices are worked out in London. We don't have the details, so I cannot tell you how these are arranged. The basis of the pool, as far as I know, is what has been said to you and I don't know that it has been varied, if you give me those figures based on 5.75 cents and worked up to Rs. 4-10-3.

President.—Those are the figures given to us by them.

Mr. Heathcote.—It must have been due to the fact that the pool must have been selling at a loss.

President.—The pool must establish it. I attach some importance to this question.

Mr. Heathcote.—How far back have you got gulf prices given you?

President.—We have not got them except for July, 1927. The gulf prices won't help us by themselves, because the freights vary.

Mr. Heathcote.—Freights were high.

President.—Freights were lower as a matter of fact.

Mr. Heathcote.—I don't think they were as low as in 1927—8 shillings a ton.

President.—Mr. Heathcote, you might see Mr. Gray about it. I have tried to explain to him that I attach some importance to this point.

Mr. Heathcote.—You have asked for it. Whether I give the information or Mr. Gray gives, it, the source will be the same.

President.—You must establish that point. If we say that they have not established it, they lose one very good point which they might have made in their favour. What about this petrol business? Have you got any views on that?

Petrol.

Mr. Heathcote.—The Standard Oil Company will do just as they have done with kerosene.

President.—There also the position may be this, in this particular industry you can vary your products.

Mr. Heathcote.—You mean that you can make sometimes kerosene and sometimes petrol?

President.—Yes. Supposing this war went on seriously and if it extended to petrol you could still confine it to kerosene only for a very long time by simply allowing these people to make more petrol in the country and you could carry on the war in respect of kerosene right through.

Mr. Heathcote.—I see what you mean.

President.—If that should arise, the question of petrol we need not enquire into.

Mr. Heathcote.—You mean to say that what we ought to do is not to have any war in petrol. Let the Standard Oil Company come in with petrol.

President.—The Standard Oil Company's point is that they will not come in until there is a demand for it. You can postpone the demand for a very long time by simply making more petrol in the country.

Mr. Heathcote.—Do you really think that the Standard Oil Company are going to wait?

President.—I don't know whether they will or will not.

Mr. Mathias.—They have made a public statement before us. If they don't stand by the statement put before the Tariff Board, they run a serious risk of Government action.

Mr. Heathcote.—They have made a general statement that they have no intention of entering the petrol trade unless and until the indigenous supply runs short of the demand.

Mr. Mathias.—They have.

Mr. Heathcote.—That is a very general statement.

Mr. Heathcote.—To what extent can the Burmah Oil Company increase their production of petrol?

President.—By reducing kerosene.

Mr. Heathcote.—How long can they defer the date on which actually foreign petrol will be wanted?

President.—Then in the meanwhile you might have settled your differences as regards kerosene.

Mr. Heathcote.—We might have.

President.—It does seem to me that if it was possible, then the question of petrol is not of any great immediate importance. That will largely depend upon the policy of the Asiatic Petroleum Company. They can do it if they like for some time provided of course the Standard Oil Company stand by what they have said.

Mr. Heathcote.—I quite see your point. I don't know anything about refining. I rather gather from Mr. Gray that it might not be economical to increase petrol at the expense of kerosene.

Mr. Mathias.—It might not be economical normally, but it might be economical to cut prices.

Mr. Heathcote.—Yes, one would imagine it would be.

Dr. Matthai.—Your present impression is that the Standard Oil Company are going to import petrol.

Mr. Heathcote.—They will take a long time to complete their installations. Mr. Guthrie himself said that it would take two years. It might take them two years.

President.—2 years is about the time when Mr. Gray thinks that there may be a shortage of petrol.

Mr. Heathcote.—So I gather.

Dr. Mathai.—Then there will be a petrol war in the same way as you have started the kerosene war.

Mr. Heathcote.—We won't import until there is need. We will be able to find out long before the Standard Oil Company are able to find out.

Dr. Mathai.—Mr. Gray has made a statement that in 2 years you are likely to have a margin of deficiency and that the Indian production will not be able to supply the full requirements. Do you accept the statement?

Mr. Heathcote.—I don't know anything about it. If he says so, I think you can take it.

Dr. Mathai.—That is his view. The Standard Oil Company's view also is that it will take them about 2 years, so that unless some arrangement is come to by them, the war seems to be very likely again after two years.

Mr. Heathcote.—As long as the supply of indigenous petrol is sufficient to meet the demand, we shall not import petrol. When the indigenous supply is no longer sufficient to meet the demand the Asiatic and Standard will compete for the trade in foreign petrol.

President.—Same thing will happen.

Mr. Heathcote.—If you get a definite promise from the Standard Oil Company not to import petrol until there is a definite need for it, then I think we might possibly compose our differences in the meantime.

Dr. Mathai.—You don't need to put up installations.

Mr. Heathcote.—They are already there.

This is what Mr. Guthrie says on behalf of the Standard Oil Company of New York in a communication to us dated the 27th April, 1928 :—

“With regard to the probable date our installations will be ready to permit of our entry into the Indian petrol market, I give it as a conservative estimate that it will take a full two years to complete the installations; some may be ready slightly under two years, but others may take more time to be completed. Any estimates that may have been made by members of my staff to the effect that we would be ready at any fixed date under two years, or at some time within a few months, are not authoritative and have been made without my knowledge or sanction. I am not prepared on behalf of my company nor will I recommend to them that we give any undertaking whatsoever to restrict our sales of petrol in any respect to the exact difference between indigenous supply and the demand, as has been suggested. We expect that by the time we shall be ready to market petrol in India, the consumption of petrol will have materially increased to a point where we shall be in a position eventually to sell a quantity consistent with the plant investment that will be necessary. It was not our intention to give any other impression than this in our printed representation to the Tariff Board.

I will undertake on behalf of Standard Oil Company of New York to market such petrol as we do sell, at prices at which petrol is at that time sold by indigenous or other companies selling petrol in India. It is not our intention to enter the Indian market by cutting prices below those then prevailing and if petrol prices are at that time reduced, it will not be on my company's initiative. That is the only guarantee I will give in connection without entry into the petrol business in India ”.

President.—This is the only guarantee he has given on behalf of the Standard Oil Company of New York.

Mr. Heathcote.—The Standard Oil Company of New York have made up their mind to enter the Indian market.

President.—Only when there is a demand.

Mr. Heathcote.—He does not say so. He does not give any such undertaking.

President.—What he says is after having come into the market he does not give any undertaking whatsoever to restrict his sales in any respect to the exact difference between indigenous supply and the demand.

Mr. Heathcote.—He has not given any undertaking not to enter the market until there is a definite demand.

President.—He cannot enter the market and when he enters the market he will not reduce the prices. It would hardly be possible for the Standard Oil Company of New York to enter the market if there is no demand.

Mr. Heathcote.—If they were to think of selling petrol now, they could easily sell. Pratts which is the brand under which they would sell their petrol is a very well-known brand of petrol. Whether it is cheaper or not, if the price is the same as the price of Shell or of B. O. C. petrol there will always be some people who will buy an equivalent brand like Pratts.

Mr. Mathias.—Why should not they?

Mr. Heathcote.—They are bound to, there is no reason why they should not.

Mr. Mathias.—What is your objection?

Mr. Heathcote.—I am only saying that the fact that he has given an undertaking not to cut prices is not any undertaking not to enter the market before there is a demand for foreign petrol.

President.—He says “With regard to the probable date our installations will be ready to permit of our entry into the Indian petrol market I give it as a conservative estimate that it will take a full two years to complete the installations”.

Mr. Heathcote.—He can supply petrol in barrels now if he wants to. There is nothing to stop him.

Dr. Matthai.—Have you imported petrol in barrels recently?

Mr. Heathcote.—The Asiatic have not imported petrol for the last 17 years. Until our bulk installations were ready indigenous petrol was imported in four gallon drums.

Mr. Mathias.—At present it will not be a profitable undertaking to import it in drums.

Mr. Heathcote.—You get a good price for second hand drums. It might pay them to import petrol in barrels to prepare the market. They won't do it two years ahead of the time but supposing the petrol installations are going to be finished within six months, they can very easily import two or three consignments in barrels to pave the way.

Mr. Mathias.—But not as a permanent proposition?

Mr. Heathcote.—No.

Mr. Mathias.—It will be simply for the purpose of preparing the market.

Mr. Heathcote.—Yes.

Mr. Mathias.—Supposing we reduce the period of two years by six months?

Mr. Heathcote.—You will be on the safe side.

President.—To return to Kerosene: to what extent do you think that the consumer is benefitted by these cuts?

Mr. Heathcote.—I should think by about six pies per bottle.

President.—That is equivalent to your reduction more or less. You have 24 bottles in a tin.

Mr. Heathcote.—Fortyeight to the unit—it is about 24 annas or Rs. 1-8-0.

President.—Do you think that the consumer is benefitted to that extent? It is almost more than your reduction.

Mr. Heathcote.—No, the reduction, except in Calcutta, has been more than Rs. 1-4-0. Rs. 1-4-0 was the first reduction and has been retained in

the Calcutta area. But elsewhere the reduction has been increased to over Rs. 2-8-0 in some places.

President.—And now?

Mr. Heathcote.—It takes a long time for the bottle prices to be affected, unless of course there is competition among the dealers.

President.—All these people have been overstocked by over 20 per cent.

Mr. Heathcote.—Yes, they have.

President.—When you raise the price of inferior kerosene the dealers would benefit by it.

Mr. Heathcote.—They will take advantage of it.

President.—As regards superior kerosene, you will make it good under your arrangements.

Mr. Heathcote.—We did it at one time. I don't suppose we should do it now.

President.—That is one of your undertakings. These prices would perhaps take two or three months to become effective.

Mr. Heathcote.—Yes, to become fully effective.

Contributing price to kerosene pool.

President.—They included in calculating the world parity prices 10 per cent. commission. It seems rather a large amount on imports when no service is rendered.

Mr. Heathcote.—We used to charge 10 per cent. That was supposed to be our profit.

Mr. Mathias.—Your profit as what?

Mr. Heathcote.—As contributors.

President.—Your prices are very nearly world parity prices.

Mr. Heathcote.—Yes, our contributing prices are.

President.—They are practically the prices which the pool fixed them for the different grades.

Mr. Heathcote.—Which period are you referring to?

President.—The last. The imported superior was Rs. 5-13-0. Their own selling price was Rs. 5-12-0 from January to June. If they had to add 10 per cent., 10 per cent. would be included.

Mr. Heathcote.—Yes, in Rs. 5-13-0.

President.—It was Rs. 5-11-0 for the inferior which was supposed to be superior really. The imported inferior was Rs. 5-9-0 to Rs. 5-11-0, that was just below the pool's selling price for superior.

Mr. Heathcote.—Yes.

President.—They are high prices to pay for the pool.

Mr. Heathcote.—Rs. 5-9-0 was the rate.

President.—Rs. 5-9-0 was for the inferior.

Mr. Heathcote.—We used to take 2 annas off the world price when we were asked to supply inferior oil so that Rs. 5-11-0 would be our calculation of world prices.

President.—If you took Rs. 5-13-0, it was nearly Rs. 1-4-0 higher than the world parity for superior and actually one anna higher than the pool's price for superior.

Mr. Heathcote.—If Rs. 5-13-0 is our contributing price, it is based on the Gulf rate, freight, insurance, charge for leakage, etc.

President.—All that is included in this calculation.

Mr. Mathias.—Presumably the Gulf price *plus* freight and so on will give you a satisfactory profit. Why take another 10 per cent.

Mr. Heathcote.—You might ask why we want 10 per cent.

Mr. Mathias.—You might say that it was simply your arrangement with the pool.

Mr. Heathcote.—Yes, it was based on particular circumstances which are that the Gulf prices are the prices which anybody can come and buy oil. We reckon that we are in just the same position as other people who buy oil at Gulf prices. Then shipping from a more economical source of supply is an additional profit.

President.—You get profit in two ways. First of all your profit comes in at the world parity.

Mr. Heathcote.—Yes, as we are suppliers.

President.—Then your profit comes out of the price at which you sell to the pool.

Mr. Heathcote.—Yes.

President.—That is 10 per cent.

Mr. Heathcote.—Yes.

Dr. Matthai.—Then you get two annas extra.

Mr. Heathcote.—I don't think we get two annas extra. If Rs. 5-13-0 is our price, then it is the Gulf price *plus* freight *plus* 10 per cent. *plus* the charge to cover our main installation and storage facilities at 10 shillings a ton.

President.—That is all included.

Mr. Heathcote.—You say that Rs. 5-13-0 is very much above the world parity price because the world parity price does not allow for all that.

President.—It does. It includes—

- (a) Gulf price,
- (b) Freight and loss by leakage,
- (c) Import duty.

Mr. Heathcote.—We have to pay the import duty.

President.—Then, it includes—

- (d) Profit at 10 per cent. on (a) and (b),
- (e) Storage at 10 shillings per ton;
- Also other charges for handling, etc.

So that it is all inclusive, and it comes to Rs. 4-10-3. But you have been paid at Rs. 5-13-0.

Mr. Heathcote.—Then the Gulf price on which we have been working is not the same as that which you have taken.

President.—I hope somebody will enlighten me on that point. I have been asking for information. I do not know whether they have understood me or not. But so far this information has certainly not been received by me.

Mr. Mathias.—I understand you put yourself in the position of an ordinary importer.

Mr. Heathcote.—Yes.

Mr. Mathias.—You say that the importer has got to pay in America so much of those charges and then he must make on his deal 10 per cent. profit.

Mr. Heathcote.—Yes. If he is selling it through the pool, he must pay 5 per cent. to the pool as commission for selling the oil.

Mr. Mathias.—So that actually your imaginary purchaser would have to pay 5 per cent. commission for selling the oil.

Mr. Heathcote.—The imaginary dealer goes to America and buys a cargo. He has not got an organisation to sell it. He has got to pay somebody to sell it. He adds to his purchase price, let us say, a fair profit of 10 per cent.

Mr. Mathias.—Out of that he has to pay 5 per cent.

Mr. Heathcote.—Yes, on a larger figure (because it is calculated on the gross price) in the shape of commission to some imaginary organisation for selling his oil.

Mr. Mathias.—So that he actually makes something under 5 per cent.

Mr. Heathcote.—Yes.

Mr. Mathias.—Those are the conditions under which imports are possible to an outsider.

Mr. Heathcote.—Yes.

President.—Take the pool. Why should the pool take any commission? It recovers everything—all the charges *plus* profit. If the pool wants to import a certain quantity from the United States, will the pool have to pay 10 per cent. or anything like that?

Mr. Heathcote.—If the pool likes to buy direct of course it can do so?

President.—It won't pay anything like 10 per cent.

Mr. Heathcote.—It can avoid 5 per cent.

President.—Supposing you were going to get oil from one of your own companies operating there, what would you have to pay? Would that company charge you 5 per cent. for direct sales?

Mr. Heathcote.—I expect it would.

President.—Because that happens to be the system.

Mr. Heathcote.—You think that it is rather too large a profit to charge?

Mr. Mathias.—Especially in view of the fact that the commission charged by the new Burmah-Shell Oil Storage and Distributing Company is only 3½ per cent.

Mr. Heathcote.—The Asiatic used to get 10 per cent. because they were in the fortunate position of being both contributors and sellers.

President.—It is a matter of two cables. You say "all right send me so many thousand barrels". The man at the other end sends a cable saying he has sent them. He simply puts them on board. Why should he get 10 per cent.?

Mr. Mathias.—Your point of view is that the consumer must expect to pay the price which it would cost him if he was an importer.

Mr. Heathcote.—That is right.

President.—The poor consumer is never an importer. That is the whole trouble. If the consumer happens to be an importer, he won't have to pay 5 per cent.

Mr. Heathcote.—That is true.

President.—Supposing you worked with the indigenous industry and still this war went on and the Government said "we must put a stop to this war. All this money is being wasted". It means that the consumer may be called upon to make a little sacrifice.

Mr. Heathcote.—Yes, if the war is stopped.

President.—Now the consumer wants to know "what benefit do I get if the war is stopped". He says "whether war or no war I get my requirements of oil at world prices". He must be induced to believe that it is to his advantage that this should happen. What are you prepared to give him? He says "I purchase oil in my own country. It does not matter a scrap to me whether that oil is produced because I have got to pay the same price". What consideration are you prepared to show him supposing this war is stopped in your interests?

Mr. Heathcote.—It will not be stopped in our interests.

President.—I am putting it to you.

Mr. Heathcote.—You are asking me a question which the indigenous producer should answer.

President.—You are supposed to be with the indigenous producer.

Mr. Heathcote.—I cannot express any views on behalf of the indigenous producers.

President.—It is a point that you must consider. Supposing Government action is necessary in order to protect the indigenous industry, then the consumer says "what am I going to get out of this if I am to make a sacrifice". You don't sell oil any cheaper because it is produced here.

Mr. Heathcote.—I don't know about that.

President.—Did he get it cheaper?

Mr. Heathcote.—Yes, through the pool.

President.—That you have got to establish. You have not yet established that. Supposing you don't establish that?

Mr. Heathcote.—Supposing we did not establish that, then we would have nothing to say. If I was an indigenous producer in such circumstances and if I was asked this question, all that I could say to the consumer is "here is a large industry employing a large number of people".

President.—The consumer does not care whether I get employment or not in the Burmah Oil Company.

Mr. Heathcote.—His interest has to be looked after by the Government who know that the employment of a considerable number of people is of value to the country.

President.—The country can take care of itself. You want me to contribute; what am I going to get out of this sacrifice that you ask me to make? Here is an application for national assistance to the indigenous industry and you support it to some extent. People want to know what is going to happen after the war? Are they going to get any benefit? They will say before the war they did not get any benefit.

Mr. Heathcote.—You are assuming that the consumers will say that; I say the consumer actually did get a benefit on account of the preferential duty.

President.—Supposing that is not proved?

Mr. Heathcote.—Supposing that is not proved, then you could say the arrangement or machinery is always there whereby the benefit of the preferential duty could be given in full to the consumer and if the pool was not working on the lines on which it was supposed to have been working, you might see that it did work so that the consumer did get the benefit.

President.—What ways would you suggest? Supposing Government says "the consumer should get the benefit; you work this way". We take your word, we don't dispute it at all and then you work out the world parity in this way. The consumer then says "I am getting the stuff at world parity price for inferior and at a very much higher price for superior. Where do I come in"?

Mr. Heathcote.—You say it has not been proved that the pool gives any benefit to the consumer. I hope it will be proved. On the assumption that the pool has been working as it was intended to work the consumer is certain to get the benefit inasmuch as he is getting his inferior kerosene at very much below the world parity price. If the pool has been working as it is supposed to work you can definitely rest assured that the consumer is benefited. It is up to Government to see that it does work. If you find that the pool has failed to do what it is supposed to have done you can find a way by which it is made effective.

President.—What steps would you suggest?

Mr. Heathcote.—If you find that the pool has failed to live up to your expectations, you can find out in what ways it has been defective. Then you can make your recommendations. If you think 10 per cent. is too much to add, say so; if you think that a difference of 4 annas between the world parity price of superior and the price for inferior for which there is no

world parity is too little, say so and then the Asiatic will have to fall into line when they find that Government are prepared to assist the indigenous industry or they can at least consider whether they should follow the lines that you might suggest.

President.—I quite appreciate what you say that these are the lines on which it should be done. But there are two things to be done there. You say that the quality does not matter, but quality must make some difference in the price?

Mr. Heathcote.—India is practically the only market that takes inferior oil of the present quality. There is inferior oil sold in China at 2 annas below superior, but in the market's estimation it is not inferior oil, whereas in the estimation of the market inferior oil sold in India is inferior.

President.—That I quite understand.

Mr. Heathcote.—The Asiatic for instance have not always supplied inferior when they have been asked to. They supplied Californian oil which would be considered as perfectly good oil and would be sold as superior if the colour were taken out.

President.—Californian oil is always a cent or a cent and a half below the other oil?

Mr. Heathcote.—Yes.

President.—Why is it?

Mr. Heathcote.—There has been a lot of over-production there I think.

President.—Why should we not take the world parity price from California? Is the freight from California more than the freight from New Orleans?

Mr. Heathcote.—Californian oil is sent through the Panama Canal to the east coast of America. Ours goes direct from the west coast of America *via* Singapore up to India.

President.—Does this Californian oil correspond to your superior or inferior?

Mr. Heathcote.—We get inferior and superior both.

President.—That is water white kerosene?

Mr. Heathcote.—That is the superior oil.

President.—I have always noticed that the difference is considerable.

Mr. Heathcote.—Yes.

Dr. Matthai.—If you did not have this maximum price policy, purely on a consideration of quality what is the difference that you would fix between Indian inferior oil and the superior sold in the Indian market?

Mr. Heathcote.—We have been selling inferior oil with a differential of Rs. 1-6-0 a unit and trade is still going over from inferior to superior at that differential. So even Rs. 1-6-0 is not enough on the basis of actual quality in the Indian estimation.

Dr. Matthai.—In the same way as you fix a difference of 2 to 4 annas between superior and inferior in China, would you have to allow somewhere about Rs. 1-6-0 differential between superior and inferior in India?

Mr. Heathcote.—The oil sold in China is white oil while the oil sold here is yellow, and there is such an obvious difference in colour that anybody would pay 2 annas more to obtain white oil.

Dr. Matthai.—Practically when a consumer pays Rs. 1-6-0 less he is really paying for a quality which is correspondingly inferior, is it not?

Mr. Heathcote.—It is very difficult to say. Is there a real standard of quality? On the basis of Rs. 1-6-0 differential many people will prefer to pay Rs. 1-6-0 and take what is known as superior quality.

President.—Would there be very much difference in the freight from California to an Indian port?

Mr. Heathcote.—There is a difference, but it is not very great.

President.—What would be the freight per gallon?

Mr. Heathcote.—2 to 2½ pies.

Mr. Mathias.—What I don't understand about your imaginary purchaser is, why should not your imaginary purchaser go to California and buy his oil there?

Mr. Heathcote.—There is no reason why he shouldn't.

Mr. Mathias.—After all considering the interest of the consumer why should not your pool base their prices on the Californian prices? It seems to me that it is fair for us to take the Californian prices.

Mr. Heathcote.—There happens to be at the moment a discount on the West Coast. When we talk about world market price for kerosene it is based on the East Coast Gulf price.

World parity price.

Mr. Mathias.—You say the world parity prices are always based on Gulf prices. What is this world parity price? Is it only a pool term? The Standard Oil Company say that they don't know anything about this.

Mr. Heathcote.—I don't know whether it was invented by the pool. I imagine that if you ask an oil broker in London what is the world parity price he will give you the American price. America fixes the price of oil throughout the world and that is why it is called world parity price.

Mr. Mathias.—Possibly it is a term which has been invented by the pool for its own use. American parity would be all right but world parity seems to me to be a pool term. The pool imposed the minimum.

Mr. Heathcote.—I don't fancy prices anywhere in the world are lower than American prices.

President.—It is the price which the consumer will have to pay for the oil imported from America at that particular point.

Mr. Heathcote.—That is what is called world parity price.

President.—One can understand that. If there is no other market where this oil can be had it must be determined by the price of oil from that market at a particular point, but here the Californian price is a cent or a cent and a half lower, why shouldn't we take the Californian price and say this is the world parity price?

Mr. Heathcote.—For the last two or three years prices in California have been low. During the last two years there has been a flush production on the West Coast, but I don't think they refine it in California because they have not got the facilities. The only facilities adequately to deal with the crude oil are on the East Coast.

Mr. Mathias.—Would it be correct to define world parity price as the lowest price at any time in America?

Mr. Heathcote.—I don't think you can say that at all. I think it is understood that the gulf price is a sort of standard American price.

Mr. Mathias.—It is the gulf price New Orleans?

Mr. Heathcote.—I don't know.

Dr. Matthai.—You take a country like the United Kingdom. A certain amount of oil is produced there.

Mr. Heathcote.—It is refined there.

Dr. Matthai.—In fixing the price in the United Kingdom, for example, for imports do you base it on the Gulf f.o.b. price?

Mr. Heathcote.—I cannot say. I should imagine that would be the eventual basis.

Dr. Matthai.—Can you think of any other market where the Gulf price should be regarded as world parity.

Mr. Heathcote.—I cannot imagine any place in the world where oil is sold at a price which is lower than the American f.o.b. price. If you take

the price in Australia and work out what it costs to ship from America you will find that the selling price in Australia is not less than that.

Dr. Matthai.—It has to be got from that place.

Mr. Heathcote.—We supply oil from the Dutch East Indies to Australia.

President.—Then anybody can get it below that price.

Mr. Heathcote.—As a matter of fact America controls the price.

Dr. Matthai.—Australia would be rather to the point because Australia has a nearer source of supply than America.

Mr. Heathcote.—It is pretty well placed.

Dr. Matthai.—If the Australian price is determined by the Gulf f.o.b.

Mr. Heathcote.—More or less.

Dr. Matthai.—Supposing in determining the parity price for India I looked at the freight figures for the past year or two and I found that the bulk of the supplies, as far as the import trade was concerned, came from Russia, from Persia and from the Dutch East Indies, relatively a small portion coming from America and therefore I said the appropriate parity price to take for India would be the average of the price f.o.b. *plus* the freight in these three nearer areas, would that be unreasonable?

Mr. Heathcote.—Yes it would be.

Dr. Matthai.—Why? If the bulk of my imports came from those areas that ought to govern my price.

Mr. Heathcote.—It might if competition become so keen as to force selling prices down to rock bottom rates. In ordinary circumstances the oil would not be sold at a lower price than is necessary to secure a market, and as long as America controls the largest part of the world's supplies of oil, the prices at which oil from other sources is sold will not be less than the price at which America can supply.

Dr. Matthai.—If the oil industry is here like other industries and you are not organised into two huge organisations like your company and the Standard Oil Company and the trade is done on a perfectly competitive basis, then I take it that the man who is able to ship here from a nearer source would be tempted to sell it here at a lower price.

Mr. Heathcote.—He can certainly do so. He can certainly sell his oil from a nearer source at a lower price and make the same profit as the Americans selling their oil. He can sell it at a lower price and make the same profit. America fixes the price the world over and if he can find an outlet for his whole production in his home market, to which the freight is less than from America so much the better, because it is more profit to him.

President.—It means this that the consumer in this country cannot at present get any benefit at all of any cheaper oil even if it is available owing to this arrangement of yours.

Mr. Heathcote.—He can through the pool.

President.—How can he?

Mr. Heathcote.—With the indigenous oil in the country and with the preferential duty which exists, he can get it more cheaply through the pool.

President.—I am not talking of the pool. Supposing there are independent companies also in the United States, they may be able to sell their oil cheaper. They may be willing, but we can never get it owing to this pool.

Mr. Heathcote.—I don't see the point. The Vacuum Oil Company might decide to start selling in India. Texas Oil Company used to sell.

President.—It would come into conflict with the pool.

Mr. Heathcote.—It would come into conflict with the Standard Oil Company too.

President.—So that this country like many others can never get the benefit of cheaper oil from outside.

Mr. Heathcote.—I am not quite sure I follow.

President.—Here are the world parity prices. They are fixed with reference to the usual prices at which oil is sold at gulf ports. Take California for instance. Oil there is sent out cheaper, but we can't get the benefit of that. Take the Soviet oil for instance. Supposing it can be had cheaper, because the distance is shorter and the freight is less, even then we can't get the benefit of it at all.

Mr. Heathcote.—You get sundry importers buying up a chance lot and sending out to India.

President.—That importer also will sell at the same price as you do.

Mr. Heathcote.—He may charge a little less, but he will make as much profit as he can.

President.—As far as I can see until these big companies are dissolved, there is no chance whatever for the consumer getting his oil cheaper than the price at which the combines are willing to sell. That is what it really comes to.

Mr. Mathias.—Going back to this 10 per cent., it rather worries me. Instead of your imaginary purchaser, let us imagine that the Standard Oil Company was importing and you competed against the Standard Oil Company. Now the Standard Oil Company has its gulf price which gives it its profit, and then imports into India. It has to pay, let us say, 5 per cent. for distribution. Why should it make another 5 per cent. profit?

Mr. Heathcote.—There is no reason why it should. Actually the Standard Oil Company does not always supply its own oil. It buys a lot of oil from refiners. If the Standard Oil Company did buy oil from a refiner, you can be quite sure that if it had to pay 5 per cent., for distribution it would add on more than 5 per cent. to its purchase price in order to make a profit.

Mr. Mathias.—Supposing the Standard Oil Company brings its own oil?

Mr. Heathcote.—And does not add anything for profit, then in order to sell and maintain our trade we should have to reduce our profits.

Mr. Mathias.—In a sense it would not really be unfair to say that 5 per cent. would cover the cost of distribution. That is the price which you might have to compete against.

Mr. Heathcote.—Yes.

Mr. Mathias.—If we said that 5 per cent. would cover the cost of distribution instead of 10 per cent., we should not really be very far wrong.

Mr. Heathcote.—That is entirely reasonable.

**THE BURMAH OIL COMPANY, LIMITED AND THE INDO-
BURMA PETROLEUM COMPANY, LIMITED.**

**Evidence of the Hon'ble Mr. W. A. GRAY, Mr. R. K. KIRKMAN
and Mr. J. TAIT recorded at Maymyo on Thursday, the
17th May, 1928.**

Import into India of crude oil.

President.—There are two points I should like to go into just now. The first is the question of crude and the second, the advantage to the consumer. You have sent us a general note signed by all the companies about the importation of crude oil. Of course, it brings out the companies' point of view entirely. But there are other aspects of the question upon which I required the companies' help which I don't think I have got so far. I suppose you did not understand what I required. It is not merely a question of how the companies are going to benefit. Of course that is one of the aspects of the question. But there is the consumer. There are two or three parties in this question. There is the consumer; then there is the question of national interests—using that phrase in the absence of any other—and lastly there is the companies' view. The point was whether the interests of all these three parties could be better reconciled by importing crude oil. What you have shewn is that your interest would be entirely affected if somebody else came in. That does not help me very much. Supposing you were considering as a Board of Directors whether it would be better for you to import crude or to use indigenous crude, I am sure this would not be the kind of information upon which you could make up your minds. Supposing you are asked to work out a scheme whether it is advantageous for you to import crude or to use local crude, surely you would not advise your Board of Directors on information such as this, would you?

Mr. Tait.—We would first of all go into the question of costs.

President.—That is the most important point.

Mr. Tait.—We would also include many of the points mentioned in this note.

President.—Your Board of Directors would not act on this merely.

Mr. Tait.—No.

President.—I am merely trying to see how if a case is made out the industry can best be helped, that is to say having regard to all these three aspects of the question, *viz.*, the consumer, the nation and the industry. You of course go upon the supposition that if crude oil was imported then the indigenous industry might be damaged. But you cannot assume that the indigenous industry would be allowed necessarily to suffer.

Mr. Tait.—We had, for our own satisfaction even before this Board came here, taken out the costs. Even with the remission of the duty, we cannot say that we can import crude oil, refine it and sell at present prices.

President.—That is the point you always consider. You think that the local industry in Burma that has been established is the only party concerned.

Mr. Tait.—No.

President.—The point is this. Look at it from the consumer's point of view. Supposing you are able to supply the whole of Burma and India, then there is no question. But you cannot supply the whole demand. The question we have to consider is this. Is it to the interests of the indigenous industry that foreign crude oil should be imported into the country?

Mr. Tait.—Yes, if you can buy it cheap enough. As I say we have looked into the question on the basis of present costs and we find that it is not

possible to buy foreign crude, refine it and sell at present prices and make a profit.

President.—If you refine it in Burma?

Mr. Tait.—Yes.

President.—That is not necessarily the point. Obviously what happens now is this. Take Bombay and Karachi. Supposing they pay what we may call the American parity price for the finished product, what happens? Of course Bombay pays that price but you don't get it in this sense that if you manufacture your oil here, refine it and take it to Bombay, unless you are able to add on the freight that you pay to the American parity price, you don't recover it. Therefore you do not benefit necessarily by the oil being refined in Burma, and the Bombay consumer does not get any benefit at all. Take the case of petrol. He pays perhaps two to three annas more because of the fact that his price is based on as if the oil is refined in Burma. Why should he be asked to pay more when nobody gains by it?

Mr. Tait.—Do you mean the transport charge from Burma to Bombay?

President.—Yes.

Mr. Tait.—That does not amount to anything big.

President.—It will be two annas or three annas.

Mr. Tait.—Still, it will be cheaper to refine it in existing refineries than in the new refinery.

President.—That is a different point. On the present figures of petroleum products, that India requires, it will be seen that nearly 40 per cent. of its demand has to be met from outside sources. You cannot have one big refinery which will supply the whole country. What is required is an economic unit and not 10 economic units working together. The whole point is this. Why should the Bombay consumer be prepared to pay two or three annas more per gallon because you choose to manufacture your crude and refine your petrol in Burma?

Mr. Tait.—My point is that we can extend the existing refineries in Burma and manufacture sufficiently cheaply.

President.—You can't get the oil.

Mr. Tait.—This is only on the assumption that we would import crude. Your point is that it is better to have a refinery in Karachi or Bombay. My view is that even assuming it is possible to import crude it would still be preferable to extend the existing refineries rather than to build new ones.

President.—Yes, if you are able to prove it. Obviously it does strike me that the economy in the saving of freight would certainly be greater than the economy in refining alone. The cost of refining will never be reduced by two or three annas per gallon which is the cost of freight. That is the sort of information that I require. But I have not got it. I may go wrong in the absence of such information and by my going wrong it may happen that the industry may suffer.

Mr. Tait.—This is our considered view that it would not pay to import crude but even assuming that it did pay to import crude it would still be better to extend the existing refineries than to build entirely new ones.

President.—You are entitled to that opinion. But you have not satisfied me by figures.

Mr. Tait.—What sort of figures do you want?

President.—Take the case of petrol. Between f.o.b. Rangoon and Bombay *ex*-installation, there is a difference of Rs. 1-4-6 per unit. That is about three annas—2 annas freight *plus* post base installation charges.

Mr. Tait.—The only saving would be freight. There will be no saving as regards the other charges.

President.—All these charges have gone into the cost of crude.

Mr. Tait.—Post base installation charges are charges after *ex*-installation.

President.—What I mean is **this**. After you have brought the crude into the harbour, you have to take it to the refinery which would cost you something. That would have been included in it.

Mr. Tait.—Yes.

President.—F.I.H. cost, that is at the installation, is Re. 0-4-6.

Mr. Tait.—Yes, we have to add it to the crude price.

President.—Undoubtedly. As regards refining, would you be able to save this 3 annas per gallon to the consumer by having a bigger refinery here?

Mr. Tait.—You can refine it much cheaper say by extending the Burmah Oil Company's refinery.

President.—Considering that your refining costs come to Re. 0-1-6, how can you reduce it by three annas?

Mr. Gray. have you got anything to say on that?

Mr. Gray.—We have not gone into the question of costs of refining imported crude at all.

President.—Don't you think that you might assist me in coming to some more accurate decision than I would otherwise?

Mr. Gray.—I am afraid I cannot say anything.

Mr. Tait.—There are so many factors besides the question of refining.

President.—As you know I only came into the oil business a short time ago.

Mr. Tait.—Even if it were to pay anybody to build a refinery at Bombay or Karachi, he would not do it in the face of these other reasons, viz., prices, etc.

President.—We will take point by point. I quite agree you are entitled to put forward your own case in the best light possible. Every man has got the right to do it and I don't dispute it. But there are these two other aspects, viz., the question of the consumer and the question of the nation. You say in the note you have sent us that if this was done, some foreign companies might come and establish themselves and so on. That is a good point to take. As regards that, Government can always protect itself. That is where the national interests come in.

Mr. Tait.—We have stressed the point about national interests in paragraph 7 of our communication dated the 7th May, 1928.

President.—That is a general statement. Our decisions are seldom based on general statements. You are entitled to great weight generally, but when you have got to deal with the outside world you cannot merely say "this is my view: take it or leave it".

Mr. Tait.—I may tell you that we went into the question of importing crude and refining it at our own refinery very closely indeed. We realised that if we increased the throughput our overhead charges would come down. We went into figures and they proved to us that it was not possible for us to do the business with reasonable prospects of making profit.

President.—Is it a good proposition that you should be located where you are? You can supply only a certain demand. All that you are concerned with is that you must get a market for your full production. That is what you are concerned with. Are you interested in other markets? When you are not interested, when you cannot supply those markets, why should you say that they should not provide for themselves? I don't see the point.

Mr. Tait.—We could have no objection to the other markets providing for themselves.

President.—From that point of view really I asked for your advice.

Mr. Tait.—Our view is this. We don't think that on the present figures of costs and the present prices at which oil is being sold anybody will put his money down to build a refinery.

President.—Apart from other considerations there is the question of freight. Is it not always cheaper to save the cost of transport in marketing

any commodity? Why should it be wasted? That is what I wish to know. What arguments have you in favour of that? Neither you nor anybody else gets any benefit out of it. It is simply that the consumer in Bombay is asked to throw away his money.

Mr. Tait.—But as we say he will lose in manufacturing costs.

President.—I don't agree with you there. How can you say that the costs will be more?

Mr. Tait.—That is the reason why the American oil is cheaper. If for instance you put through 100,000 gallons of oil every day you would do that per gallon five times as cheaply as you would if you had 25,000 gallons.

President.—I agree with you there. Supposing the economic unit is 1,500 or 2,000 barrels, by having four units of 2,000 barrels do you necessarily reduce the cost in proportion?

Mr. Tait.—Very largely.

President.—Not very largely, but only to some extent.

Mr. Tait.—That is the whole reason why American kerosene is so cheap. It is so cheap because there is such a big throughput.

President.—They are also changing. You cannot have too much production in one place for markets too far away. That is the point. If you provide for the same market you are catering for, I can understand it. But when the distant market means an increase in transport and other charges, there can scarcely be any advantage.

Mr. Tait.—We said that you would probably save on freight. But then small refineries are uneconomic. The larger the refineries, the cheaper the manufacturing costs. Therefore if you increase the capacity of the refineries that now exist you will be able to produce your oil much cheaper than you can by having small refineries.

President.—Taking the whole consumption of Bombay, would you say that a refinery of your size could not be maintained in Bombay?

Mr. Tait.—It could be maintained but the cost of oil would be much higher than it would be in the Burmah Oil Company's refineries for instance.

President.—The Burmah Oil Company has not got the oil. If the Burmah Oil Company wish to do it, there is no objection to the Burmah Oil Company doing it. Why should not the Burmah Oil Company do it if it is profitable? It is entitled to do it. It can say that it will import crude and refine it here and send it to Bombay provided it can land oil there three annas cheaper than it is now.

Mr. Tait.—We are considering the question of a small unit in Bombay.

President.—I concede that point. Provided the unit is an economic unit, there is economy in it. A mere multiplication of units does not necessarily imply economy in the same proportion. That is my point.

Mr. Tait.—How do you describe an economic unit?

President.—That is a point you have not advised me about.

Mr. Tait.—As regards the size of the refinery, if we have oil to enable us to double or treble the throughput, our costs would be relatively cheaper.

President.—Why have you not done so?

Mr. Tait.—Because we have not got the oil to do it.

President.—I suggest that oil may be brought in when you have not got it.

Mr. Tait.—For the sake of argument, let us say you provide the oil. We have to pay a certain price for that oil. We know what the charges are likely to be and we can calculate what we may expect to get from the sale of the products. Then, if we find that it is not possible to make a reasonable profit, on that, we can't do it.

President.—Could you give me the price of American crude oil?

Mr. Tait.—There are various qualities of crude.

President.—Take the price of crude in America to-day. I take it it is \$1.28 at the wells—we are talking of the average just now. You cannot say

there is no way of comparing the two. Let me put it for the sake of argument as \$1.28 at the wells, or roughly 3 cents a gallon; the refined kerosene is sold at 5.75 cents. Therefore the difference between the price at the wells and the f.o.b. is 2.75 cents.

Mr. Tait.—The reason why this crude is sold at such a low price is because in that particular crude you get very little kerosene or other valuable products. The oil that costs \$1.28 is oil which is of very inferior quality.

President.—5 cents is the maximum price for kerosene that we have got. What would you suggest now? I am prepared to take any figure you give me.

Mr. Tait.—First of all there is not the same relationship between the price of kerosene and the crude price in America as elsewhere as kerosene in America is only a by-product.

President.—I am just trying to understand the position.

Mr. Tait.—To understand the position first of all you must be right in your fundamentals. You must realize that there is very little crude oil in America which resembles the crude oil we get in Burma except say the Pennsylvannian crude which is better than the crude oil in Burma.

President.—Take that.

Mr. Tait.—That is about \$2.50.

President.—That is very superior oil. What I want to know is, what is the difference between the price of crude at the wells and the f.o.b. refinery? That is about 2 cents a gallon. If you take Rs. 8 a barrel at the wells which is the price at which you buy, that is 3 annas.

Mr. Tait.—You can't buy that oil at 5 cents in America.

President.—Taking the two things together the margin is probably 2 cents on these figures. That is one anna. Your crude being 3 annas and kerosene 7 annas, that is a margin of 4 annas.

Mr. Tait.—I may tell you that in this particular crude you will get nearly all fuel oil; there is very little kerosene in it. I will give you specifications of certain crudes. We always buy oil by specification.

President.—Take your 5.75 cents price of refined kerosene. The higher you give the price for kerosene the lower the margin which is unfavourable to you. Why should you get 4 annas a gallon when the American manufacturer puts his oil on board at 1 anna or 1 anna 6 pies per gallon?

Mr. Tait.—Kerosene is not consumed in America to the same extent as in India; it is a by-product. Nobody wants it there and therefore the demand being less than the supply the price is low. In India it is different. In America they must sell the kerosene because they have got to take the stuff out.

President.—Not necessarily. They can make more petrol: they can make other products.

Mr. Tait.—Technical matters must be considered. For petrol you can take out certain percentage; there is a small fraction of other products; then there is the fraction of kerosene which is not wanted there. It must be sold.

President.—Then the argument is that you do not manufacture any kerosene here; import it.

Mr. Tait.—If you have to import anything obviously it would pay you to import the product which is cheap.

Mr. Mathias.—Can't you crack this kerosene as in America?

Mr. Tait.—Yes.

Mr. Mathias.—Actually what the President said was that by cracking this kerosene the percentage of petrol would be increased.

Mr. Tait.—Yes, they can, but in the meantime they have all this kerosene for which they have no need in America.

President.—Will you give me a price of crude which corresponds in your opinion to the f.o.b. 5.75 kerosene?

Mr. Tait.—We cannot give you that. We can give you certain crude and from the specifications we can show what volume of kerosene we can get out of that crude and compare that with the Burma crude.

President.—What I want is this. Take your yield. For example you say from 100 per cent. of crude how many per cent. of saleable petroleum product you can get here and how many per cent. from the average American oil. In your case the actual percentage, I think, is about 85 just now. That means you use a certain quantity out of that as fuel but the actual waste in the refinery would probably be not more than 5 per cent.

Mr. Tait.—More than that. There again all depends on the volume of products you make.

President.—I am willing to take any unit.

Mr. Tait.—We can give you the yields from 100 gallons of different American crudes and we can give you.....

President.—And you can give the price of that crude and the corresponding f.o.b. price of the products at those ports.

Mr. Tait.—We do not know that.

President.—Unless you give that it is no use. How can we compare them?

Mr. Tait.—We can give you the price in Burma.

President.—You can do that but I don't think that will make the two things comparable. Supposing you were allowed to build a refinery in Bombay, would you import your crude oil from Burma or would you import it from abroad? Put yourself in Bombay, and take it that your refinery would be equal to the supply of that part of India. Take, say, 1,500 barrels. Then you say "we have got this market: prices remaining the same shall we make more profit by actually manufacturing here or by manufacturing it in Burma and importing the stuff to Bombay"? That is what I want.

Mr. Tait.—You want us on the one side to show the saving in freight and on the other side the incidence of manufacturing costs as compared to Burma, that is to say if saving in freight exceeds the manufacturing cost in Bombay.

President.—For crude the incidence of the freight is not the same. Petrol may be higher and then the lubricating oil. I do not know how it comes. Does it come in barrels?

Mr. Tait.—Yes.

President.—Freight on that would be the same?

Mr. Tait.—About that.

President.—About 10 per cent. of lubricating oil is now imported. The saving in freight on that has to be taken into account. Take one barrel of crude and say I get so much petrol, so much kerosene, so much lubricating oil and other things and the freight on crude is so much. Then you say "if I were to import this oil from America, lubricating oil will cost me so much in freight, petrol will cost me so much in freight, kerosene will cost me so much in freight". That is your saving in freight as regards crude. Then you say "I take my petrol from here; I will take my petrol from here; my lubricating oil from here". Under the present conditions what you are doing is that you are exporting these other products to Bombay on which you have to calculate the freight differently on petrol, kerosene and lubricating oil as you would at the other end importing from America.

Mr. Cameron.—You can get crude from Attock.

President.—That is a very nice proposition for both! Supposing you were seriously considering that as one of the lines in which you should proceed.....

Mr. Tait.—We would not consider that at all in view of the other factors.

Mr. Gray.—You want to take three positions, firstly importing crude into Burma, refining it and shipping the products to Bombay. After that you want importing crude into Bombay and refining there and then you want importing the products from America?

President.—You are not importing crude but you are manufacturing from your own crude, that is not one of the three positions. So far as importing from Burma is concerned that is not my point but I am willing to look at it from your point of view. The whole point is this: what does it matter to the indigenous industry so long as it gets its home market for its requirements? Why should it insist on the consumer paying more? That is the point. Of course I am willing to concede that the industry has the first claim; that is admitted. If you satisfy me that *prima facie* there is no case whatsoever for the consumer there is an end of it but if I am not satisfied then of course the question will arise how the indigenous industry ought to be protected in its own market. So long as the indigenous industry is not injured you do not care, do you?

Mr. Gray.—No.

President.—You talk of the indigenous producer of crude. Really speaking has he any chance at present as the position stands? I am not talking of yourself in respect of manufacture, but I am talking of the indigenous producer of crude.

Mr. Gray.—Do you mean the indigenous producer of crude who doesn't refine it?

President.—What encouragement has he got to produce the crude just now as the industry is run? He must sell it to you at whatever price he gets. If you don't take his crude, he cannot sell it anywhere else.

Mr. Tait.—Excepting in the case of Hessford, the indigenous producer is also the refiner.

President.—Supposing it finds that it has reached a point that getting more oil would cost more money, it can get its supplies from outside, say, Anglo-Persian Oil Company which has been described as a daughter of the Burmah Oil Company. I don't know what interest the parent has got in it. The Burmah Oil Company may say why should we spend more money in getting more oil here. If there is a shortage, we will get it from our daughter.

Mr. Gray.—We will have to buy it from our daughter.

President.—Buying it from the daughter, the daughter makes the profit and the mother also gets a share of it. Supposing you find a big gusher which increases the production of Burma by 50 per cent. and the Burmah Oil Company may say: "the market is going. Let us look ahead". It is not to their interest in the altered conditions to do any mere exploratory or digging of wells. They don't want any more oil. You are doing your best in order to get that oil. When you get it, well and good. When you are not getting this oil, there is no market for it and the Burmah Oil Company doesn't care. What inducement is there for any producer of crude oil to search for oil. I am asking you whether you have got any proposals to submit which would make the producer of crude oil quite independent of you and find him a market. If you want to encourage the production of crude oil that is the way, because the Burmah Oil Company is quite safe whatever happens.

Mr. Mathias.—Does the Burmah Oil Company agree with those views?

Mr. Gray.—No.

President.—Mr. Gray won't agree with those views.

Mr. Tait.—You could have an import duty on oil.

President.—Or you may give a bounty on the production of crude oil.

Mr. Tait.—If the duty was high enough, the Burmah Oil Company would still want to make a search for new oil in Burma.

President.—The Burmah Oil Company would transfer the duty on to the finished products. It won't be necessary for them to do. I am now taking the case of the producers of the oil separately. The question is how to increase the quantity of crude in this province or in India.

Mr. Tait.—Assure him a reasonable price.

President.—That price he cannot get so long as he has got to depend on the refiners alone who produce their own oil, the Burmah Oil Company having

about 80 per cent, business in their hands. Therefore if you really wanted to encourage him, would it not be important to consider whether he might not be encouraged by means of a bounty on the production of crude.

Mr. Tait.—Anything in the nature of a bounty is always an incentive to a producer or anybody else.

President.—The bounty has one advantage over the duty and it is this that you only pay the bounty when the oil is produced. But if you put on a duty, there is no guarantee that the oil will be produced and the price of the crude will go up and therefore the price of other products will go up. Supposing we put up the duty on crude, then no more crude may be produced. At the same time the price may go up whereas in the case of the bounty, the bounty will be paid only on production and there is no additional burden thrown on anybody whilst exploration is going on. Government say “we will pay you so much per barrel on your production exceeding the present output, say, Rs. 10.” Would not that be a better way than the present system? I am asking you as a businessman, supposing you had a free hand in doing this, Government say to you “We want more crude produced in this country” it would not be that the refiners who also produce the crude would be necessarily left out of account.

Mr. Gray.—You propose to give a bounty on production.

President.—Whatever the Government fix.

Mr. Gray.—That would be rather helping the lucky companies, whereas you would not be giving any help to others.

President.—It would be an incentive to you also to produce more crude. As I am entirely a newcomer into the business, I don't know much about it. *Mr. Tait*, would you like to think it over and give us an answer?

Mr. Tait.—Yes.

President.—You say in paragraph 8 of your joint letter dated 7th May, 1928, you say:

“It would appear obvious however that the present foreign marketers would require to be supplied with products or be allowed to import them, as otherwise their colossal marketing organisations would require to be scrapped.”

Why should it be necessarily so? It cannot affect the marketing organisation at all if there is more production by somebody else. Supposing you or anybody else started a refinery in Bombay, you can still give it to the pool or to the Indo-Burma Petroleum Company whichever does it cheaper.

Mr. Tait.—The rest will be taken by the Standard Oil Company.

President.—You must keep the Standard Oil Company out of account. If the country undertakes anything of that kind, it must see that the foreign interests don't benefit.

Mr. Tait.—So far as I can understand your idea is to bring in sufficient crude to make up the deficit between the present production and between the present demand which at present is mainly supplied by the Standard Oil Company.

President.—Not only by the Standard Oil Company.

Mr. Tait.—Principally by the Standard Oil Company, so that when we displace the volume of imports, the Standard Oil Company would not be able to find any use for their marketing organisation.

President.—How does it hurt you?

Mr. Tait.—It doesn't hurt us at all. It would undoubtedly mean the scrapping of a very large selling organisation. It appears to us rather uneconomic.

President.—We are now considering the question of putting the industry on a better footing. Anything which is uneconomic must go out. The whole point is this. It need not necessarily affect the marketing organisations. If there are three marketing organisations, the Burmah Shell, yourselves and

the Standard Oil Company, the marketing organisation is not necessarily affected by increased production in the country. Why should it?

Mr. Tait.—Yes, it would if it resulted in the entire exclusion of any import by foreign companies.

President.—They would have the indigenous products to sell in the country. I am just considering why should it happen. The marketing organisation would remain the same. Whoever markets the oil cheaply, will have it.

Mr. Tait.—On the supposition that the Standard Oil Company would be buying the oil from the local refinery.

President.—Yes.

Mr. Tait.—We didn't consider that point.

President.—There need not be any question necessarily of scrapping any marketing organisation.

Mr. Cameron.—Take the case of the Vacuum Oil Company which imports lubricating oil. I don't think they would get very much from the local refineries of a particular grade.

President.—In any scheme of protection that we have framed we have not taken into account any special tastes. We say 95 or 90 or even 80 per cent. It is good enough. If a man has got a special taste, he will have to pay a special price. He will buy that article if he wants it.

Mr. Cameron.—A very large percentage of motor oil is sold in the country.

President.—Why shouldn't they have them, if they want them. If you produce an equally good oil, they will go out.

Mr. Gray, do you mean to say that the Burmah Oil Company and the Anglo-Persian Oil Company have not considered the question of having another refinery in some other part of India.

Mr. Gray.—No.

President.—How is that? Probably there must have been some complication that the Royal Shell might have prevented it from doing so.

Mr. Gray.—I don't see how it would.

President.—The Anglo-Persian are refining very large quantities in England.

Mr. Gray.—Yes.

President.—One would think that their attention would turn in this direction too.

Mr. Gray.—There is always this difficulty. They will be not only importing crude oil, but also a lot of other things, petrol for instance, which we don't want.

President.—In conjunction with the new refinery and the local producers, it might be possible so to arrange the products that there will not be any difficulty. Within reasonable limits, I don't think it would be quite impossible.

Mr. Tait.—If we try to adjust the products, so that the production of each product is more or less equal to the demand, we should not be doing it within economic laws.

President.—If one industry confined itself to making one particular kind, there might be more economy. I don't know whether it would apply to your industry or not. Certainly it applies to other industries. The question of mass production comes in there. I don't see why it should not apply to your industry.

Mr. Tait.—The petroleum industry is not like any other industry. You cannot go on manufacturing anyone product like petrol without also making other products.

President.—It would also depend upon the demand for various articles in the country.

Mr. Tait.—Yes.

Benefit derived by the consumer from the kerosene pool.

President.—We take this other question of the consumer in this other letter dated 11th May, 1928. Mr. Tait, you told me the other day that Mr. Gray would be able to establish this point.

Mr. Tait.—I don't see why he should not.

President.—If I were to tell you that he has not established it, have you got anything to say?

Mr. Tait.—I have nothing to say.

President.—Mr. Gray has done his best, I am quite sure. Apparently his company is not interested in supplying me with later information than 1923. Up to 1923 I have nothing to say. I am not interested in it. What I wanted to know was the last 5 years. I have repeatedly asked the companies to get it. I daresay there must be very good reason for not disclosing the information to us. The only inference I can draw is that the explanation would be against them. From the first day if you remember I have been asking for this information. Mr. Gray undoubtedly has done his best to get the information. We asked Mr. Heathcote the other day and he referred me to Mr. Gray. Mr. Gray says he has not got it. Do you think that it would be wrong of me to suppose then that the facts are as I see them and not as the companies have put them. I am even now prepared to listen to anything that you may have to say, but I can tell you Mr. Gray this much that I am not satisfied and I do think that the consumer in the last 5 years has not benefited by this pool.

Mr. Gray.—You think that he has not derived any benefit from the 195,000 tons of specially cheap kerosene?

President.—No. He has not got the low price kerosene at a very much lower price than the world parity and he has paid very much more than the world parity for superior kerosene.

Mr. Gray.—Not very much more.

Mr. Mathias.—We don't know whether that is true or not, because we haven't got the figures for the last 5 years.

Mr. Gray.—That is also my trouble.

President.—Your Directors may be businessmen. They may think that we may not be able to find out anything and leave it at that. Perhaps they may be right.

Mr. Gray.—They are prepared to take the risk.

President.—You have done your best and we have done our best. We have taken every possible step to get the information and if I take the f.o.b. gulf prices and reduce them to some sort of world parity, I get a figure which is very much higher than they claim. If the selling price has been regulated by the American parity price, that price is very much higher than it should be. But the point arises in this way. You say that the object of the pool was that the consumer must get the benefit of the drop in prices and that he would have to pay more if the price went up. Now if I find on these figures such as I have that during the last 4 years, the account has been on the wrong side of the consumer, would I be wrong in asking the companies to set it right? If I accept your principle on which you are acting, supposing I find that during the last 4 years you have taken from him Rs. 4 more than you should have done, would I be wrong in saying "give him the Rs. 4 back and then talk of further damage". Would not that be a way of looking at it? I am acting on your own principle. If I were to hold you to your own policy, would I be wrong in suggesting that?

Mr. Mathias.—By way of adjustment of accounts.

President.—You yourself have said that that was the idea.

Mr. Gray.—That was the idea of the pool's price.

President.—Supposing he says "let us settle our accounts: you owe me Rs. 4. Let me have four rupees first before I do anything more for you", what would you say to him?

Mr. Gray.—Even if that was established, we had been giving him a hand some present for many years.

President.—He may consider that argument if he likes.

Mr. Mathias.—You have your own accounts of the pool. Have they got a balance?

Mr. Gray.—There was a debit balance when the pool was closed.

President.—I am not talking of the pool in that sense. The pool was supposed to realise what it paid. The question is what did it realise? Did it realise more than it should have done? If you realised Rs. 4 more, where is that now? I must leave it at that.

On page 3 of your letter dated the 11th May, 1928, you say " This figure was presumably arrived at by applying the current prices at United States of America Atlantic seaboard and current rates of freight and exchange to the whole volume of supplies to the pool both foreign and indigenous ". We have not got that. I may tell you as regards 1923 it is ancient history. I am not going into that. It was not that I disputed that statement upon the figures that your chairman mentioned and the manner in which he looked at them. But the question was whether that was the right way of looking at the figures. As regards that, as I say, we have not got the figures.

Mr. Gray.—You want figures for the last five years.

Gulf prices.

President.—Yes. We have not got them and Mr. Tait has given me Gulf prices from the *Petroleum Times*. As regards the other charges I cannot say whether the freights have changed or not. If freights were more, you would have made more money and if freights were less, you would have made less money. I could not say anything definite. Are these Gulf prices given in this letter (of 11th May, 1928) given by your Company?

Mr. Gray.—Yes.

President.—The public quotations are I think given by Mr. Tait.

Mr. Tait.—Yes.

President.—That was what I thought was probably the case. I find that the basis of pool supplies is just about 10 per cent. below the public quotations.

Mr. Tait.—The pool paid the contributors about 10 per cent. less than the world parity price.

President.—The way I interpret is this. The quotations given in the newspapers do not necessarily represent the price at which business is done.

Mr. Tait.—Usually they do.

President.—I find in other cases offers are made on those quotations but business is done at prices which are below those quotations. I should not be surprised if they were 5 to 10 per cent. below public quotations. We found it so in the case of steel. If you got a steady order for a large quantity, would you not give some reduction over the current price?

Mr. Tait.—Yes, I would. But I understand that these were the quotations on which business was done.

President.—These may be the quotations on a particular date for a few barrels. Supposing a man comes to the market and says " I want 100,000 barrels ", what is your quotation then?

Mr. Tait.—It will probably be less.

President.—This practice had been in force for 6½ years. It appears that at that time they did make a reduction of 10 per cent. on the trade quotations.

Mr. Gray.—They examined the conditions of the market and took what was a fair rate.

President.—What I mean to say is that it does show that the actual price paid was 10 per cent. below public quotations. That is all that I say.

Mr. Gray.—The price taken as the basis of pool supplies for the second half of the year would probably be that of the end of May or beginning of June.

President.—I am talking of the average.

Mr. Tait.—It does show that the pool has taken more than the current market price.

Dr. Matthai.—These 12, 15, 15½ cents are I think quotations on different dates.

Mr. Gray.—Yes.

Dr. Matthai.—This 13½ cents might be the figure current at the particular time the contract was made.

Mr. Gray.—Yes.

President.—On page 5 of your letter of 11th May 1928, you give us Singapore figures. They only show that they charge very much more than they ought to. The price of Rs. 7.11.11 for lowest quality tinned is absurd. It is only taking advantage of the market by a monopolistic concern. That you did better than that we will admit on these figures. I am willing to admit that you have been much more humane than the Asiatic Petroleum Company in Singapore. But it does not necessarily show that you have been unusually kind.

Mr. Gray.—If we had not made arrangements with the Asiatic Petroleum Company, the Indian consumer would have had to pay the same price.

President.—In that case the Board might have come sooner.

Dr. Matthai.—How does the distance from Singapore to Borneo compare with the distance from Rangoon to an Indian port?

Mr. Tait.—It will take about two days to go from Singapore to Borneo.

President.—I take it that these prices correspond to your post base prices.

Mr. Gray.—Yes.

President.—They do seem to be very high.

Mr. Gray.—Yes.

President.—If you like you may put it this way. You have not been as rapacious as the Asiatic Petroleum Company. The price given in your letter is an unthinkable price.

Mr. Gray.—We prevented the Asiatic Petroleum Company from being as rapacious here as they were in Singapore.

President.—If you put it that way, you may have some justification. But I have no doubt that that was not what I was looking for.

What American parity would they take? Would they get it *viâ* Suez Canal?

Mr. Tait.—I should think *viâ* Panama.

President.—They would get it from California.

Mr. Tait.—Yes.

President.—If you take the California parity it seems double because it is 4½ cents just now.

Mr. Tait.—That is a very strong reason for maintaining indigenous production.

President.—To that extent certainly. But I suppose the consideration which the Asiatic Petroleum Company gets is that you don't go and sell in their market. Do you sell in their market?

Mr. Gray.—We don't.

President.—That is why they get a little more here and much more there.

Dr. Matthai.—You have no information at what price the Burma Shell really gets its supplies from the Asiatic Petroleum Company?

Mr. Gray.—The rate has broken down since the rate-war. Whatever we realise from the market so long as the rate-war continues, they will be paid that.

Mr. Mathias.—What you get from the market for the superior?

Mr. Gray.—What we actually get.

Mr. Mathias.—Do you still mix the Royal Dutch oil with your superior oil?

Mr. Gray.—I do not know what they are doing now.

Mr. Mathias.—Your superior rate you would not pay.

Mr. Gray.—They will give whatever rate is actually realised whether superior or inferior.

Mr. Mathias.—You will pay them in proportion to the inferior and superior. Before you were paying for their inferior oil at four annas less.

Mr. Gray.—That was their contributing price.

Mr. Mathias.—Do you pay them at the rate of the Indian inferior?

Mr. Gray.—They keep separate accounts for superior and inferior.

Mr. Mathias.—Do you pay them the average?

Mr. Gray.—The average realised return.

Dr. Matthqi.—The system is entirely different.

Mr. Gray.—Yes, at the moment it is.

Purchase of Soviet oil.

President.—As regards the Soviet oil you have made a point that when the Soviet oil was purchased, it was below the American parity price and you mentioned the figure of 5 cents. Of course, we have not got the date of the contract at all. We do not know when it took place. But it must have been anyhow before July.

Mr. Gray.—I understand that there were a series of contracts. In the case of one contract we heard the price was 3 cents. and there was some arrangement by which the Soviet Russia shared the loss. But I cannot say all this as a fact.

President.—If you put it at 5 cents, you have not substantiated your point very much because the price was then in the neighbourhood of 5 cents. according to the figures given to us by Mr. Tait.

Mr. Gray.—We do not know anything about the rates.

President.—I can only take the statement as it is made to me. Had the price been 5 cents., it could not be said that business might not have been done taking everything into consideration. There is one other factor which I must take into account and that is this. It has been brought out in the correspondence in the press that the negotiations that were being conducted by all the oil companies including the Standard Oil Company, the Royal Dutch Shell Group and the rest were broken off with a view to shutting out Soviet Russia to some extent, that is to say, nobody was to market its oil.

Mr. Gray.—I think that was the idea.

President.—That being the idea, if Soviet Russia sold its oil at 5 cents., it did get a price that was the market price. Supposing you want to sell an article you all combine together and say we won't buy your article, but you must sell it. Then, some other fellow comes up and says 'I will buy it'.

Mr. Gray.—They would have got a very much higher price by selling the oil in Russia.

President.—The whole point is that, having regard to the American prices at the time and the fact that you had practically decided to boycott Soviet oil and that there was no market for it, would you say that under those conditions that was not an economic price?

Mr. Tait.—I think 5 cents. was probably a pretty fair price under the circumstances. At that time the Gulf price was about 5½ cents.

President.—If it is proved that there was this understanding between the Standard Oil Company and the Soviet that is a different matter.

" World parity."

Now, as regards the American parity prices, our terms of reference require us to say what the world parity prices are. They don't use the expression 'American parity'. I wish to know whether, taking a long view of the situation, the oil companies—the Royal Dutch Shell Group and the others—could insist upon the consumer always paying the American parity price? Can we assume that, that is the price at which he always ought to get his oil even if he has a nearer market from which he can get it? Take a position like this: I don't know what the oil reserves may be, but even taking the present production, and taking Russia's share at about 6 per cent. roughly, the Anglo-Persian Group about 5 per cent., between Iraq and Persia together 1 per cent. and India and the Dutch East Indies something like two per cent., if there was a division of markets in the oil world—we will put it that way—would not the consumer say "My market is this, why should I be compelled to pay American parity prices always"?

Mr. Tait.—Except that America supplying 70 or 80 per cent. of the whole demand will fix the price.

President.—It is quite possible that as these fields are developed more and more.....

Mr. Tait.—Of course the position might change.

President.—Russia claims that it has got 15 per cent. of the reserve against 12 per cent. American, but America produces 80 per cent. of the worlds demand. So can the Anglo-Persian and other companies say "we have got what we may call geographical advantage in this market". Can the American then say "No, you cannot do it because we produce 80 per cent." Can that state of affairs go on indefinitely? Isn't the Indian consumer entitled to say "Why should I be asked to pay more for this oil when I am able to get the oil cheaper elsewhere", from Mr. Cameron for instance. The point I am trying to investigate is this. Supposing the indigenous industry was to be put on a good footing, it must show that eventually it would be able to face world competition. The question will then arise that if it gets the American parity price, as you say it does at present, but for the war you do not need any protection. But supposing world prices came down in this sense that oil began to come from nearer areas, it would be necessary to consider whether, when the circumstances had changed, the industry would be able to do without protection. If the industry is to be put on a sound footing, can I overlook that factor as an impossible one?

Mr. Tait.—I should think that in the course of a few years the position may change entirely and America may not have the dominant field that she now holds.

Dr. Matthai.—From your note I find that the pool has been able to buy its supplies of oil at what may be called Borneo parity.

Mr. Tait.—Yes.

Dr. Matthai.—American parity has not been invariably recognised by the pool itself and to some extent it may be able to get its oil at some other parity.

Mr. Gray.—Of course that means a saving in freight.

Mr. Mathias.—As a matter of fact the pool admits to some extent the recognition of changed conditions. For instance you make adjustments for freight as the freight changes?

Mr. Gray.—The freight basis is taken as constant. If the oil comes from Borneo.....

Mr. Mathias.—I am referring to the world parity. As the freight comes down so you vary world parity price, so that there would be nothing un-

reasonable in asking the pool to recognize any change in the existing conditions other than, for instance, change by way of competitors asking an uneconomic price, will there? There would be nothing unreasonable to vary this parity price owing to changed conditions?

Mr. Tait.—The world price is always fixed on the basis of the demand and supply.

Mr. Mathias.—The only really unchanging factor that I can see in the pool is that the American price should be taken as the world parity?

Mr. Gray.—Yes.

President.—From the indigenous industry's point of view you don't care provided your interest is safeguarded whatever oil you have got to compete against?

Mr. Tait.—No, we don't.

President.—That is to say, if the price in the country can be brought down consistently with the interest of the indigenous industry then you will have no reason to complain?

Mr. Tait.—No.

President.—In other words if this doctrine of American parity is to be adhered to for all times, it means that India has to pay a higher price?

Mr. Tait.—World parity will be based not necessarily on Gulf price.....

President.—American parity.

Mr. Tait.—American parity will go by the board as soon as some other country supplies a greater volume of oil than America. America will have to sell according to the other parity which dominates.

President.—That is a condition which we cannot lose sight of in this investigation, can we?

Mr. Tait.—No.

President.—I must confess that this doctrine of American parity beats me. In one sense the consumer is made to pay a price for an article for fetching it from the longest market and not from the nearest under competitive conditions. That is how the oil business at present works because there is elimination of this competition.

Mr. Tait.—Oil is cheaper in America than anywhere else.

President.—Quite true, but why should we not have it cheaper also here? Geologists sometimes speak the truth! If they did, it does show as if we have a good deal more oil than the United States. It may be producing more for the moment but certainly according to the geologists' legends we have much more oil than they have.

Dr. Matthai.—Your point is this: if we take a lower freight from a nearer source of supply we must make sure whether the f.o.b. cost from it is not higher than the American f.o.b. cost.

Mr. Tait.—Yes. The fact remains that kerosene is cheaper in the Gulf than anywhere else.

President.—Taking the whole thing together the position may change and in any investigation that may take place that factor must be provided for.

Mr. Tait.—That is so.

President.—Mr. Gray, can you get from the Asiatic Petroleum Company or the Royal Dutch Shell Group the price they paid to the Soviet at different times before 1926 for the oil that they bought?

Mr. Gray.—I will see if I can get it for you.

President.—Is there any import duty on fuel oil?

Mr. Tait.—Yes, 7½ per cent.

President.—Is it *ad valorem*?

Mr. Tait.—Yes.

Mr. Gray.—On crude oil there is a duty of 2½ annas a gallon.

Mr. Tait.—It is the same as on kerosene—about Rs. 5-4-0 on the American barrel, or Rs. 6-4-0 on 40 imperial gallons.

Differential between superior and inferior kerosene.

President.—About future prices, Mr. Gray, has the pool decided anything about this differential? In the olden days when you fixed this differential of Rs. 1-6-0, the idea was that the indigenous industry must be secured against foreign competition as regards inferior kerosene. That is what I understood from the evidence.

Mr. Gray.—That was one of the considerations.

President.—But that has not prevented the war?

Mr. Gray.—No.

President.—Therefore is it worth while keeping such a big differential if that has not prevented the war from spreading to the inferior kerosene? There is no point at all in keeping this great difference, and I suggest whether they may not now supply more or less the same grades of oil as they supply in other parts of the world with a differential of, say, two annas or something like that?

Mr. Tait.—The differential has been reduced already.

President.—Why should you get a higher differential here? You can keep it at 2, 3, 4 or 6 annas and not more. On the whole on an average you may realize a better price and at the same time so far as competition is concerned you won't increase it.

Mr. Mathias.—Would that result in a reduction in the demand for inferior kerosene and a diversion of a certain percentage to superior kerosene: in superior kerosene you would be in competition with the Standard Oil Company and to that extent your sales would be reduced? Is that the position?

Mr. Gray.—I should think it would.

Dr. Matthai.—The present differential is 14 annas, is it not?

Mr. Gray.—Yes.

Dr. Matthai.—Is there any proposal to reduce it still further?

Mr. Gray.—I think the matter is under consideration.

President.—The position is this that the competitive power of the Standard Oil Company is reduced in one way, that is to say supposing it bought this oil at 5 cents., calculating at a price of Rs. 5-8-0 and you bring the average price down to Rs. 4-6-0, to that extent it has already lost the profit that it expected to make and therefore its competition does not necessarily increase from that point of view.

Mr. Gray.—That is so.

President.—It would not be worth its while any more to import this oil and sell it to any very large extent at a lower price, but if you cut the differential there would still be an inducement for the Standard Oil Company to import more oil of their superior quality for which they would get a little better price.

Mr. Gray.—Yes, it has reduced the inducement for the Standard Oil Company.

Mr. Mathias.—The differential is by way of 4 annas reduction in superior and four annas increase in the inferior oil?

Mr. Gray.—Yes.

President.—The prices now are Rs. 4-4-0 and Rs. 3-6-0?

Mr. Gray.—The prices are whatever we can get for them; there is no fixed ex-installation price now.

President.—The Standard Oil Company say the cut made is Rs. 1-8-0 and Mr. Heathcote said that was so so far as the main ports were concerned.

Mr. Tait.—One effect of that reduction in differential is that there is more demand for waste American oil.

President.—He cannot afford to sell it to same extent. It cannot really affect your sales very much.

Mr. Gray.—Yes.

President.—But it might the other way and he may persist longer by getting a little better price for a longer period.

Mr. Mathias.—Does this Rs. 1-8-0 include the last four annas cut?

Mr. Gray.—I suppose it does.

President.—That makes it Rs. 4-4-0.

In the joint letter that you wrote on the 15th December, 1927, there are two points. The one is that the Soviet oil must be shut out from all the markets with which I have already dealt. The next point is that all the Indian companies have joined in this campaign of the Royal Dutch Shell on moral grounds.

Mr. Gray.—Yes.

Origin of the price war.

President.—That is what this letter does suggest. It was not merely a question of being dragged into the war. As it happened you had to join the war. At that time you took up more or less the same standpoint as the Royal Dutch Shell on this moral issue.

Mr. Gray.—Yes.

Mr. Mathias.—Apart from the moral issue, Mr. Gray, you had some inducement to enter into the war with the Royal Dutch.

Mr. Gray.—No.

Mr. Mathias.—You had this offer of compensation for one thing.

Mr. Gray.—I don't know whether that was arranged as a result of the war or it was started before the war.

Mr. Mathias.—Could you find that out?

Mr. Gray.—Yes.

Mr. Mathias.—Then there is this thing: the Anglo-Persian Oil Company, i.e., your daughter company are now allowed for the first time to compete in the market.

Mr. Gray.—Yes.

Mr. Mathias.—That might be an inducement. Was that also arranged before the war?

Mr. Gray.—I think that was after the war.

President.—I understand now that the arrangement is that the surplus required by the country is to be shared by the Anglo-Persian and the Asiatic Petroleum Company.

Mr. Gray.—Yes.

President.—Plus whatever share they can get out of the Standard Oil Company, is that right?

Mr. Gray.—Yes.

President.—As regards fuel oil I understand that you have not received details.

Mr. Gray.—No.

President.—But as regards the other products the arrangement is that the Anglo-Persian and the Asiatic Petroleum Company are to share equally.

Mr. Gray.—Yes.

President.—What do the Anglo-Persian Oil Company contribute to the war? I understand that the Asiatic Petroleum Company is making a certain

contribution, but what is the Anglo-Persian contributing to get this market and what is the consideration for the Royal Dutch Shell to give up this market without a fight with the Anglo-Persian Oil Company—I would like to be enlightened on those points. It does seem to me that there is something radically wrong about this war in that way. These three people are fighting. One of them apparently has agreed to compensate the smaller companies, but the other about whom I don't know anything walks into the market more or less having done nothing at all before for this market. The Asiatic Petroleum Company claims that it has done a lot. That we are investigating. As far as the Anglo-Persian is concerned, it has done nothing so far as I know.

Mr. Gray.—It stayed out of the market. The Anglo-Persian Oil Company could not have come in without a price war.

President.—It doesn't say that the Anglo-Persian is paying anything.

Mr. Gray.—The Anglo-Persian has stayed out.

Mr. Mathias.—Why should the Anglo-Persian now come in?

Mr. Gray.—They have been waiting for a long time to come in.

Mr. Mathias.—They must have given some consideration to the indigenous companies and the Royal Dutch Group.

Mr. Gray.—I don't see why they should pay any compensation when they were not responsible for this war.

Mr. Tait.—As a *quid pro quo* they will undertake not to cut prices when they come to find a market for their oil.

President.—The Anglo-Persian cannot go into the war without dragging in her mother. That is why the Anglo-Persian have kept out of the war out of filial piety. Now it does seem as if the Royal Dutch is carrying on a benevolent war for the benefit of the Anglo-Persian very largely.

Mr. Mathias.—I understand that the Anglo-Persian which formerly would not agree to the pooling arrangements have now been induced to agree. Is that the idea?

Mr. Gray.—The idea is we cannot expect the Anglo-Persian being situated so near to India to keep out of the market indefinitely. If we are to have them we would rather have them on friendly terms.

President.—The Anglo-Persian is not here. We take it the consideration is that the Anglo-Persian would abstain from using its forces against the Royal Dutch Shell in this market, is it not so?

Mr. Gray.—Yes.

President.—I suppose a powerful company may dictate terms to anybody in that way. That is what it comes to. Now the position is that the production of the Anglo-Persian is increasing more or less rapidly in the last two or three years.

Mr. Gray.—It is liable to increase.

President.—It has been increasing. From the figures I saw during the last four or five years the production has nearly doubled.

Mr. Gray.—I believe that is so.

President.—So it has got to find a market.

Mr. Gray.—Yes.

President.—Of course one of the obvious markets would be this part of the world if it wanted.

Mr. Gray.—Yes.

President.—But I see from the figures that it has already got a very large percentage in the market, so far as fuel oil is concerned—practically the whole of it.

Mr. Gray.—In India?

President.—Yes.

Mr. Gray.—I don't know what the percentages are.

President.—Very nearly 80 per cent. in fuel oil. The idea is that these two companies more or less should have an equal share in all imported products in India. As regards fuel oil you have not received any details. Excluding fuel oil, they are to have equal shares.

Mr. Gray.—In kerosene and benzine or petrol.

President.—With regard to the fuel oil they were claiming that they would have probably the Bombay and Karachi markets which are nearer.

Compensation.

Mr. Gray.—I cannot say.

President.—As regards the agreement about the Chinese prices, approximately it works out at £80,000 in a half year from the note that you have sent us.

Mr. Gray.—I think that is about correct.

President.—That is £160,000 a year.

Mr. Mathias.—That is divided between the four companies.

Mr. Gray.—50 per cent. is borne by the Asiatic.

Mr. Mathias.—You say that the total amount of compensation comes to £80,000 for six months. That is £160,000 a year.

Mr. Gray.—That is the compensation to the indigenous companies.

Mr. Mathias.—Those four indigenous companies, do they share in proportion to their production or in proportion to their contributions to the pool?

President.—In proportion to the amount affected.

Mr. Mathias.—In proportion to their total sales. That would roughly be in proportion to their total production.

Mr. Gray.—Yes.

President.—It was in proportion to the quantity affected excluding the special spheres or areas. For instance they have got special spheres in Burma and Chittagong. As regards the Attock Oil Company it has got its special sphere.

Mr. Gray.—I am not quite sure how Chittagong and Burma are affected. The Attock Oil Company and the Assam Oil Company will receive compensation on all their sales, that is to say if the prices are not above the Chinese prices.

President.—The Chinese prices appear to be 6d. higher from your representation.

Mr. Gray.—Yes.

President.—That applies from the beginning of this year.

Mr. Gray.—Yes.

President.—But as regards the period between the beginning of the war and the 31st December, you have compensated the British Burma Petroleum Company.

Mr. Gray.—The Asiatic Petroleum Company and the Burmah Oil Company shared the loss.

President.—As regards that.

Mr. Gray.—Yes.

Mr. Mathias.—Is this agreement for any definite time?

Mr. Gray.—During the period of the war so far as I know.

Dr. Matthai.—I suppose no compensation was given last year, because there was very little difference between the Indian and the Chinese prices.

Mr. Gray.—That is so.

President.—When did the British Burma Petroleum Company know about this compensation?

Mr. Gray.—I could not say.

President.—It was odd that this fact was not mentioned in any representations to the Government of India. The first one was sent on 15th December. Neither in that nor in the later representations was it mentioned that the British Burma Petroleum Company were being compensated. It was for that reason we would like to know when this arrangement with the Burma Oil Company was made. The Government of India may have good reason to complain that a material fact was not mentioned to them.

Mr. Mathias.—I think you brought to the notice of the Government of India that you are paying compensation to the British Burma Petroleum Company up till the end of December.

President.—I think you probably did and I am talking from the British Burma Petroleum Company's point of view. The position has to be clearly brought out. I am telling all the companies.

Mr. Cameron.—Our London office cabled to me the other day about this compensation. That was the first time they hear of it. They didn't understand it nor did I.

President.—When did you first come to know of this arrangement?

Mr. Cameron.—When you read it out in Rangoon.

President.—The representation was from London.

Mr. Tail.—Our London people didn't know anything about it.

President.—Messrs. Taylor and Company, whom do they represent?

Mr. Tail.—They represent the British Burma Petroleum Company.

President.—They have sent in a later representation also as far as I remember. It is rather an important thing from their point of view that they must absolutely explain the situation. Until I saw it in one of the letters to the British Burma Petroleum Company, I didn't know. As you remember I pressed this point on the very first day. Up to that time I didn't know anything about it and I assume that the Government of India didn't know until then. It is in the interests of the company that they must let us know.

Mr. Mathias.—I imagine representations to the Government of India were approved by your Directors at home.

Mr. Gray.—They came direct from London. It might be possible that it was not thought that there was going to be any compensation.

President.—Obviously it could not be to the interests of the Royal Dutch Shell to let everybody know as soon as possible that this was the arrangement. Whether this arrangement was known to the companies on any date before the dates of any of these representations sent to the Government of India or not is a point which requires some explanation. What I want to know is how is it that the Indo-Burma Petroleum Company has been entirely left out of this.

Mr. Gray.—The Indo-Burma Petroleum Company is not a member of the pool.

President.—Pool or no pool, if you are entitled to any compensation on the ground that you are a neutral, the Indo-Burma Petroleum Company is also on the same footing. Pool or no pool, it could not say that it would not join the war. It had to join the war. Now, I want to know on what ground that the Indo-Burma Petroleum Company has been entirely excluded from this arrangement.

Mr. Mathias.—The Attock Oil Company is only a contingent contributor and not an actual contributor. When the Attock Oil Company is going to get some compensation, it seems strange that the Indo-Burma Petroleum Company should be left out.

Mr. Gray.—The companies who are members of the pool have all undertaken to contribute kerosene at a low price. They have undertaken certain obligations which the Indo-Burma Petroleum Company has not undertaken.

Mr. Mathias.—The Attock Oil Company has not contributed anything.

Mr. Gray.—It has undertaken to contribute if its production is large enough.

President.—In a way that may be an explanation. But this compensation is given not because you are members of the pool but because innocent parties are being injured. That is how the Royal Dutch Shell Group have got to look at it. Looking at it from that point of view, is there any reason why the Indo-Burma Petroleum Company should not get a share? Supposing the Indo-Burma Petroleum Company joined the Standard Oil Company, they might have said "these fellows would leave us in the lurch. Let us see whether we cannot come to an arrangement with the Standard Oil Company". Why should the Indo-Burma Petroleum Company be tied to you? If you say to the Indo-Burma Petroleum Company "you are not a member of the pool" they may say "we are going to the Standard Oil Company".

Mr. Tail.—We could not say so because under the mining lease the whole control should be vested in a British company.

President.—I don't say you would have done it or you should have done it. I am not suggesting anything of that sort. But it does seem to me that if there were any reasons for compensating these other companies, they would be applicable to the Indo-Burma Petroleum Company.

Dr. Matthai.—What is your information? Does this compensation as far as you are concerned affects the whole of your sales?

Mr. Cameron.—Yes, but I don't think that we will get anything. So long as our prices are on a par with or above the Chinese prices, we are not likely to participate.

Mr. Mathias.—Is it material that the prices which the particular companies get must be below the Chinese prices?

Mr. Cameron.—I imagine that that is the condition.

Mr. Mathias.—That puts rather a different complexion. It shows that the companies share to a different extent.

Mr. Cameron.—Yes.

Mr. Mathias.—For instance, the British Burma Petroleum Company selling through the Burma Oil Company may get a somewhat lower price. Could you give us any idea as to what extent they would share this compensation. We only want to get a rough idea.

Mr. Gray.—Yes, I will try and get it for you.

President.—If it does not amount to anything in the case of the Attock Oil Company, then is it merely to satisfy a sentiment that the Asiatic are doing it? If they want to compensate, it must be some real compensation, not an idea.

Mr. Gray.—If Mr. Cameron does not get any compensation he will get it in some other form. He will get a higher price for his oil.

President.—The production of the Indo-Burma Petroleum Company bears a certain proportion to the production of the Burma Oil Company and one would think that compensation might be given in that way.

As regards the calculation of your losses, I take it that it is not confidential.

Mr. Gray.—No.

President.—May I know whether the Statement A showing the sales in "pool" selling area and returns realised or realisable does include Burma and Chittagong?

Mr. Gray.—That is excluding Burma and Chittagong.

President.—Time and again I have asked for this information. I really want to know what your total loss is on all kerosene and you always tell me

that this is your loss in India. What are you making in Burma and Chittagong? Are you going to give me this information?

Mr. Kirkman.—Yes, we will give you.

President.—I must make a deduction to get at the real loss. That is what the Asiatic Petroleum Company is doing in determining it according to the quantity affected. If I am to take these figures, I will have to deduct, supposing I want to arrive at your total loss, your profit in Burma and Chittagong from these losses. This reminds me Mr. Tait of the statement I wanted to ask you to prepare. I have got mixed up with the ex-refinery price, post base price and ex-installation price. I shall be obliged if you can prepare a fresh statement and send it in the following form:—

Indo-Burma Petroleum Company's realisations in India including
Burma and Chittagong :—

Average inferior.

Average superior.

Average of inferior and superior.

Indo-Burma Petroleum Company's realisations in India excluding
Burma and Chittagong :—

Average inferior.

Average superior.

Average of inferior and superior.

Mr. Tait.—We have given you our realisations from all centres.

President.—I want it in this form. I want it for each half year or for the year from January, 1926, up to date, and that is for kerosene only.

Mr. Tait.—Our statement show you our actual realisations from each area.

President.—I want you to do the calculations for me. I want it from January, 1926, up to date.

Mr. Tait.—We have already given you for 1927.

President.—But you have not given it in the form in which I want.

Mr. Tait.—If you are content with 1927, we can work out the statement up here.

President.—Would you agree that the prices realised prior to that would be about the same?

Mr. Tait.—Yes.

President.—Then you can give it for 1927 only.

Dr. Matthai.—Going back to the question of compensation: you said that we might do it on a *pro rata* basis.

Mr. Kirkman.—Yes.

Dr. Matthai.—Approximately that would be the way of doing it.

Mr. Kirkman.—Yes.

Dr. Matthai.—Supposing we took your figure of Rs. 20 lakhs for the whole year?

Mr. Kirkman.—Better take it for the half year.

Dr. Matthai.—Then, it will be Rs. 10 lakhs. Assuming that the Attock Oil Company are not going to get anything and that the Assam Oil Company are not going to get anything, if you took it and divided it according to the sales of the British Burma Petroleum Company and the Burma Oil Company you would get fairly accurate results.

Mr. Kirkman.—Yes.

Mr. Mathias.—First of all our terms of reference require us to determine the current price of kerosene at Indian ports. So, I should like to have the current average price for the pool for the whole of India, Chittagong and

Burma--that would be the average price of inferior and superior kerosene--and then separately for the inferior and superior kerosene.

Mr. Gray.--Yes.

Mr. Mathias.--Could you give us the prices paid to the Royal Dutch at present for their inferior and superior by your selling organisation?

Mr. Kirkman.--Same as ours.

Mr. Mathias.--The point is that they now get a lower price for their inferior than they used to get.

Mr. Kirkman.--Yes.

Mr. Mathias.--There is just one point about the British Burmah Petroleum Company. In the event of that company desiring to dispose of any of its properties the Burmah Oil Company is to have the first refusal during the continuance of the agreement, isn't that so?

Mr. Gray.--That refers only to their selling organization--their depôts in Calcutta. They used to have installations at Budge Budge.

Mr. Mathias.--So that this has nothing to do with their other properties?

Mr. Gray.--No.

President.--Mr. Cameron, in your case the whole lot of kerosene and petrol is sold through the pool, is it not?

Mr. Cameron.--Yes.

Mr. Mathias.--Since the 31st March the price has gone up to Rs. 3-5-7. It will be a difference of one anna three pies.

Mr. Gray.--I think on the average it is.

Mr. Mathias.--It would be safe to consider that the price has increased by this one anna three pies. Then of course on the top of that this difference of four annas between superior and inferior has to be calculated.

Mr. Gray.--Yes.

Mr. Mathias.--There is one other point about the prices. Mr. Heathcote told us that your system of rebates and secret commissions was going to be overhauled and probably they would be reduced very considerably in the near future. He said we might take it as a rise in the price of about two annas.

Mr. Gray.--The other rise to which I referred is largely due to the overhauling of the rebates.

Mr. Mathias.--He said the overhauling of rebates had not yet taken place but that the question of doing so would come in in the near future.

Mr. Gray.--There is a general tendency to increase our return by cutting out rebates.

Mr. Mathias.--He said in the future we might take another two annas on the price as a result of the overhauling of rebates.

Mr. Gray.--Yes, that would be fair but that would not be in addition of the one anna three pies you mentioned just now.

Mr. Mathias.--That would be in substitution of the one anna three pies?

Mr. Gray.--Yes.

President.--Supposing you fixed the price at a cut of Rs. 1-8-0 for the superior and Re. 1 for the inferior, that is to say the superior was brought down to Rs. 4-4-0, that would be nett after making allowance for everything?

Mr. Gray.--That is the official reduction.

President.--Isn't that what you would intend to get?

Mr. Gray.--By the time all these rebates have been cut out that is the return we should get.

President.--I thought Rs. 1-8-0 was in lieu of all the rebates and all the previous cuts. Isn't that the idea?

Mr. Gray.--Rs. 1-8-0 was the official reduction in price. In September the original reduction was Rs. 1-4-0. We want to get back to that position.

President.—Now the idea is to confine the reduction to Rs. 1-8-0.

Mr. Gray.—Yes.

Mr. Mathias.—Over and above this open reduction there will be a cut in the rebates; that is two annas, reducing it to Rs. 1-6-0.

Mr. Gray.—Probably the return is more than Rs. 1-4-0 below the pre-war price. In considering the alteration of the differential this increase of two annas will bring it up to Rs. 1-4-0.

Mr. Mathias.—There are one or two general points I want to ask you about. You have some experience of cracking the refuse of the crude oil, have you not?

Mr. Gray.—My company has.

Mr. Mathias.—Have you made any experiments with regard to cracking inferior kerosene?

Mr. Gray.—I think not.

Mr. Mathias.—Have you contemplated it at all? For instance, in the event of your bringing up your price for inferior very close to your superior oil customers may revert to superior and you may find it difficult to dispose of your inferior. Have you considered the question of cracking it or super-refining it?

Mr. Gray.—We could certainly refine it.

Mr. Mathias.—You could crack it, could you not?

Mr. Gray.—I imagine so. I am afraid I am not an expert. We have not experimented in that direction.

Mr. Mathias.—We were told by the representative of the British Burmah Petroleum Company that they could crack it.

Mr. Gray.—I think we could.

Mr. Mathias.—But you have not made any experiments?

Mr. Gray.—No.

Mr. Mathias.—Would you not think it worth your while doing it?

Mr. Gray.—Not so far. We have probably attempted it in the laboratory.

Mr. Mathias.—I am not quite sure whether I have got the position as regards prices correctly. I take it that you started off this war with a surprise attack, so to speak, and the surprise attack not having attained the success you expected, you are now stabilizing your prices at a somewhat higher level than before.

Mr. Gray.—The tendency is rather towards a higher price.

Mr. Mathias.—At present you are pushing up your prices to a certain level. I formed the impression that you will finally get to a level of prices at which any advantage which the Standard Oil Company derived from importing kerosene from Russia will be neutralized. Is that about correct?

Mr. Gray.—That we cannot say because we do not know what their contract price is.

Mr. Mathias.—I understand that you are now groping in the dark to find out the price which will in effect neutralize any advantage which they have as a result of their importing kerosene from Russia?

Mr. Gray.—Yes.

Mr. Mathias.—That is really the object of the war at present. The prices may be stabilized at such a level that it would give no profit on the Standard Oil Company's Russian contract. Perhaps after a time when there is a stalemate they may be inclined to give up their contract and go back to the sales of American oil. Is not that the position?

Mr. Gray.—I think that is fairly correct.

Mr. Mathias.—As regards the Assam Oil Company you say you have put in about £900,000 of capital.

Mr. Gray.—Yes.

Mr. Mathias.—But apart from that there was some arrangement with the Burmah Oil Company in 1921 by which they had a majority of the shares.

Mr. Gray.—Yes, they had a controlling interest in that company.

Mr. Mathias.—How many shares had they taken over?

Mr. Gray.—About 90 per cent.

Mr. Mathias.—Since the Burmah Oil Company took over the Assam Oil Company there has been a considerable change of policy. That company worked for a dividend before and since the Burmah Oil Company has taken it over it does not work for a dividend but for development. That is really the point.

Mr. Gray.—It is going through a period of re-construction during which its expenditure will be heavy.

Mr. Mathias.—We might practically regard this company as a part of the Burmah Oil Company, can we not?

Mr. Gray.—Yes, but there are outside shareholders who also have a claim to be considered.

Mr. Mathias.—For all practical purposes, as far as we are concerned, the policy of the Assam Oil Company is the policy of the Burmah Oil Company and it is worked in the interest of the Burmah Oil Company.

Mr. Gray.—Obviously as the largest shareholder.

Mr. Mathias.—I don't know what 90 per cent. of the shares at the rate of £2 per share represents. Perhaps, you have sunk $3\frac{1}{2}$ million pounds in the Assam Oil Co. In your representation to the Government of India you say "The Burmah Oil Company itself suffering serious losses as a result of the rate war, will be unable to render the assistance which it has given in the past to an enterprise which will offer no hope of its ever being remunerative, and operations will have to be abandoned in a field of which perhaps alone of all the Indian fields it can be said with confidence that its period of greatest productivity still lies in the future". The Burmah Oil Company having sunk perhaps $3\frac{1}{2}$ million pounds, do you think seriously that they will abandon this scheme?

Mr. Gray.—It might not be able to put in more money. If there is no progress there must be retrogress.

Mr. Mathias.—We have not had the balance sheet of the Burmah Oil Company as yet but from the Annual Year Book it seems that if they wish to raise another 3 million pounds for developing the Assam Oil Company, their reputation is such that they would have little trouble in securing the money. They could even offer shares at a premium.

Mr. Gray.—The reputation of the Indian oil companies do not stand as high as they stood at one time.

Mr. Mathias.—We have seen how the Attock Oil Company has progressed during the last year and if the Assam Oil fields are very much more promising than that.....

Mr. Gray.—Mr. Cameron will perhaps not agree that they are very much more promising.

Mr. Mathias.—The facts are that you are a very large company, that you have already sunk $3\frac{1}{2}$ million pounds in the Assam Oil fields and it would perhaps not be unreasonable to conclude that you would not like to see all this money lost. Without having any inside knowledge of the oil trade it is quite reasonable to conclude that your directors will make an effort to get something out of this field of which, according to your statement, the period of greatest productivity still lies in the future so that we must not take this statement of yours at its face value!

Mr. Gray.—Your estimate of $3\frac{1}{2}$ million pounds is rather generous I am afraid. I think $1\frac{1}{2}$ million would be about right.

Mr. Mathias.—The capital was £450,000.

Mr. Gray.—The issued capital was £4,00,000. We have paid about £720,000 for the shares at the value of £2 each. We don't know whether the Assam Oil Company could put up a sufficiently attractive or paying prospectus to induce the public to subscribe.

Mr. Mathias.—In that case the Burmah Oil Company could take it over, could they not?



सत्यमेव जयते

**INDO-BURMA PETROLEUM COMPANY, LIMITED AND THE
ATTOCK OIL COMPANY, LIMITED.**

**Evidence of Mr. J. TAIT and Mr. D. CAMERON, recorded at
Maymyo on Friday, the 18th May, 1928.**

Indo-Burma Petroleum Company, Limited.

President.—I have been looking at the evidence but I don't find how you work out this world parity. First, as regards the f.o.b. Gulf price, that is taken from the *Petroleum Times*, is it not?

Mr. Tait.—These were wired for under your instructions by the Burmah Oil Company and we had the figures from them. (Statement Part 4-A.)

President.—As regards freight, it is the same figure that you gave to the Government of India?

Mr. Cameron.—Less 6 pics.

President.—Do I understand that you got that figure of freight from the Burmah Oil Company?

Mr. Tait.—Yes.

President.—That is the freight they say they charge?

Mr. Tait.—Yes, time charter rate of 8 shillings per deadweight ton per month.

President.—Is that tanker?

Mr. Tait.—Yes.

President.—I want to understand how it works out at £3-2-8 per ton. The charterer pays the freight, and the fuel, but the crew and other things are paid by the owner of the ship?

Mr. Tait.—Yes. (Refers to statement sent by Mr. Gray on the 5th May 1928 and confirms items as payable by charterers.)

President.—Would you give me the distance from Aden to Colombo and from Aden to Bombay?

Mr. Tait.—Yes.

President.—Look at your statement Part 5-L. If this petrol was to be imported into the United Kingdom and we were to ascertain the American parity there, I wish to know which of the charges shown therein would also have to be borne by the importer in England. Freight we will assume will have to be taken in proportion.

Mr. Tait.—Yes. Probably freight from America to England is cheaper than the freight from America to India.

President.—Leakage and insurance?

Mr. Tait.—That will be about the same.

President.—Import duty they did not have before so that won't come in?

Mr. Tait.—No.

President.—Wharfage may be more or less the same. Pumping they must charge; loss in storage by evaporation will be less.

Mr. Tait.—Yes.

President.—Storage would be about the same.

Mr. Tait.—Yes.

President.—Commission to dealers, we do not know what is the rate there, but that will have to be paid.

Mr. Cameron.—It is a penny a gallon.

President.—Handling and delivery to dealers I suppose they will have to bear.

Mr. Tait.—Yes.

President.—This is the price *ex pump*?

Mr. Tait.—Yes.

President.—That corresponds, I take it, to the price *ex pump* in England before the imposition of this duty on petrol?

Mr. Cameron.—It exceeded Re. 1.

President.—What was that?

Mr. Cameron.—You will find that in the *Petroleum Times*.

President.—Then it would be more or less safe to take the rates quoted for the London area?

Mr. Tait.—Yes.

President.—This rate of Re. 1-0-6 is for Bombay, I take it.

Mr. Tait.—Yes.

President.—Then you see the balance for profit. They also will have to make a profit, I take it, but in that case is this commission to dealers in the extra profit.

Mr. Cameron.—Paid to the dealers.

President.—This is the company's commission, I take it.

Mr. Cameron.—Yes.

Mr. Tait.—This shows the profit that would be made by selling in Bombay at the present price.

Mr. Mathias.—There is not a big margin if the Standard Oil Company wish to compete with you in petrol so far as American petrol is concerned.

Mr. Tait.—There is not a very big margin.

Dr. Matthai.—I expect that means when there is a margin of deficiency and the Standard Oil Company imports, the prices might go up as in the case of kerosene.

Mr. Tait.—It might.

President.—As regards freight also I suppose, if I were to take Bombay, I will have to make adjustments in that Rs. 1-3-0 from the Gulf of Bombay instead of Madras and Calcutta being a shorter voyage.

Mr. Tait.—There is not very much in it. I don't suppose it would amount to anything big per unit.

Possibility of importing crude oil.

President.—It is 6 days each way. In Burma there is some sort of crude available from the wells in the Twinza reserve.

Mr. Tait.—Yes, from hand-dug wells.

President.—What is the price of the oil at the wells? Would it be Rs. 8 a barrel.

Mr. Tait.—They sell it of course on the foreshore.

President.—Which foreshore?

Mr. Tait.—At Yenangyaung. They may sell it at Rs. 10 to Rs. 12. It depends on whether there is a buyer or not.

President.—I am talking of the average.

Mr. Tait.—The average is about Rs. 11 for small quantities of hand-dug well oil; for oil from deep wells Rs. 8 to Rs. 9.

President.—And the freight from there down here would be about a Re. 1.

Mr. Tait.—Re. 1-2-0.

President.—That would be about right.

Mr. Tait.—Yes.

President.—Apart from the bigger companies that produce their own oil, if I say that the price stands in the neighbourhood of Rs. 8 to Rs. 9 a barrel, that would be about right.

Mr. Tait.—Yes, for any reasonable quantity although the hand-dug well owner with 2 barrels to sell may get Rs. 11 a barrel for his oil. Our arrangement with the Irrawaddy Flotilla Company regarding freight is that we have a sliding scale.

President.—The average will be about Re. 1-2-0.

Mr. Tait.—Re. 1-2-0 to Re. 1-3-0.

President.—I simply want to get an approximate idea. How much is produced in a year in the Twinza reserve?

Mr. Tait.—Do you mean from the hand-dug wells?

President.—Yes.

Mr. Tait.—I could not tell you. It is all registered at Yenangyaung.

President.—They have a sort of revenue register.

Mr. Tait.—Yes.

President.—It is a very small percentage, I think.

Mr. Tait.—Yes.

Mr. Mathias.—Could you give me an idea in terms of barrels?

Mr. Tait.—I don't suppose it will be more than 50 barrels a day.

Mr. Mathias.—15,000 to 20,000 barrels a year.

Mr. Tait.—Yes, about that.

President.—As regards the world market for crude oil, it is not a tied market as it is in the case of refined products, that is to say there are a number of independent companies that would sell oil.

Mr. Tait.—Thousands of companies. One man may produce oil from one well.

President.—Therefore what I mean is this. That is not under the same control as the refined product or under the bigger companies.

Mr. Tait.—No, except that there are not many bigger companies that will buy from these small producers.

President.—Supposing you were to buy, you might find it cheaper to buy from the smaller producer.

Mr. Tait.—Yes.

President.—What I want to know is generally speaking that the crude market is freer than the market for the refined products.

Mr. Tait.—I don't think anybody would put any obstacle in your way to buy your oil.

Mr. Mathias.—Are they controlled by a ring in respect of crude to the same extent as the refined products? There are comparatively few big refining companies as compared with the number dealing with crude.

Mr. Tait.—There must be hundreds of companies refining in the United States.

President.—I read 3 or 4 years ago that there were about 16,000 producers of crude against 479 refineries in America. That was about the proportion.

Mr. Mathias.—I thought that it was generally accepted that the market for crude in America is a free market and that the market for refined products is not.

Mr. Tait.—Not to the same extent.

Mr. Mathias.—Prices vary to the extent of the purchases of the Standard Oil Company.

Mr. Tait.—Yes. The Standard Oil Company are one of the biggest buyers of crude oil.

Mr. Mathias.—Are crude prices independent of the price of the Standard Oil Company?

Mr. Tait.—It more or less depends on what the Standard Oil Company say they are prepared to buy at.

Mr. Mathias.—In some parts.

Mr. Tait.—Yes.

Mr. Mathias.—But not everywhere.

Mr. Tait.—The Standard Oil Company is a tremendously powerful company.

President.—The proportion of the oil that they themselves produce compared to what they refine is very small.

Mr. Tait.—Yes.

President.—As regards crude there is an outside market which is not necessarily controlled by the bigger refineries.

Mr. Cameron.—The Standard Oil Company really control the market in America in a way. If the Standard Oil Company pay 25 cents more, every body else will have to pay 25 cents more.

President.—There are quite a number of wells. They may find it more convenient to deal with the outside world. That is done in America, is it not? I was looking at the import figures in Europe and I found in many cases the oil was not imported through the bigger companies. Of course a certain percentage came from the recognised groups, but a fairly big percentage came from all sorts of places.

Mr. Tait.—Yes.

Mr. Mathias.—Take the case of the Burmah Oil Company. They have got a definite offer from a company for a million tons of crude.

Mr. Tait.—That is a very low quality of crude.

President.—That is the Texas crude.

Mr. Tait.—Yes.

President.—That is an independent group.

Mr. Tait.—The Texas Oil Company is an independent group. Of course there are hundreds of companies operating down in the Texas. Texas is a very big area so far as oil is concerned. They are getting large flush production of this low quality. I saw in one of the papers that they are now trying to refine it. There is so much sulphur in it that it will corrode plant very rapidly and they are trying to overcome that.

President.—If anybody was to import oil, he would have to select his oil

Mr. Tait.—Yes.

President.—I take it that most of these producers of oil supply you with an analysis of what sort of oil they have got.

Mr. Tait.—We would purchase to specification.

President.—Then you can compare more or less the quality of the oil with the price that you would pay, is it not so?

Mr. Tait.—Yes. What we do is when we get a specification, we endeavour to estimate what percentage of the products we will get from the oil on that specification.

President.—That is to say you can roughly say more or less what oil will pay you to buy and what will not.

Mr. Tait.—Yes.

President.—You buy fuel oil, don't you?

Mr. Tait.—Yes.

President.—Could you give me the c.i.f. price? How do you buy your fuel oil? Do you buy it from the Anglo-Persian?

Mr. Tait.—We are frequently buying fuel oil. We bought the last lot from the Standard Oil Company at Singapore. Previously we had bought

it from the Anglo-Persian. We also got it from Borneo. In the case of the latter we sent our own tankers.

President.—Would you get the fuel oil also at the American parity price? How is that price regulated?

Mr. Tait.—It is all regulated, I suppose from California or by the Anglo-Persian—or whatever people are prepared to sell it. I don't know the basis at which prices are fixed. The Calcutta price and the Rangoon price are different owing to the difference in freight. They must have some starting off point. Whether that is England or America, I don't know.

President.—Why should it be? We are dealing with India now. Why should not the same parity price apply to fuel oil. Is there any other market where you can buy fuel oil?

Mr. Tait.—The only suppliers are the Anglo-Persian at Abadan and the Royal Dutch at Borneo and the Standard Oil Company at Singapore. The rate would be undoubtedly the rate at which a man can land his oil, so that the Standard Oil Company will buy oil in California and land it at Singapore. That will fix the price at Singapore. Obviously nobody will pay for any oil a better price than that unless it is of a better quality.

President.—In the case of fuel oil fairly long term contracts are made.

Mr. Tait.—Yes.

President.—I think it is more common with fuel oil than with most other refined products.

Mr. Tait.—It is. We, for instance, have a contract for bunkering our tanker in Bombay, Calcutta and Madras.

Mr. Mathias.—Would you use your fuel oil for tankers and refineries?

Mr. Tait.—We use it in our tankers. We don't use it in the refineries at all. We have been buying it and sending it to the Hessford people for their boilers to save crude oil; otherwise they will have to burn crude oil.

Mr. Mathias.—What is the price that you are paying under your contract in Bombay?

Mr. Tait.—I think it is about £3-15-0.

Mr. Mathias.—That is 75 shillings a ton.

Mr. Tait.—Yes.

President.—If you were to add the same charges, 75 shillings a ton would leave very little.

Mr. Tait.—Fuel oil competes with coal. The Anglo-Persian Oil is essentially a fuel oil and not a rich oil. I don't remember the exact percentage of fuel they take off. It is a large percentage. Their crude is not a valuable crude. It gives a large percentage of fuel oil, that is a product which is of no better use than fuel.

Mr. Mathias.—That is as compared with the Burmah oil.

Mr. Tait.—Yes.

Mr. Mathias.—Not necessarily as compared to American oil.

President.—You have given in statement No. Part 5-C, imports of kerosene oil into India? Are they taken from the trade papers?

Mr. Tait.—We have our own offices in Bombay, Calcutta and Chittagong. We got these figures through them.

President.—From the Customs people?

Mr. Tait.—Yes.

President.—They are the actual imports, are they?

Mr. Tait.—Yes.

President.—The Standard Oil Company have imported approximately a little more than half.

Mr. Tait.—Quite.

Mr. Mathias.—This statement includes Burma and Chittagong.

Mr. Tait.—These are the total imports including the Standard Oil Company's imports.

Mr. Mathias.—Could we take this as representing the consumption?

Mr. Tait.—Approximately.

President.—These figures are the pool's imports. These are imported into India by the Burmah Oil Company and the Asiatic Petroleum Company.

Mr. Mathias.—This represents the production in Burma of the pool which is exported to India.

Mr. Tait.—Yes. It does not include the production of the Attock Oil Company and the Assam Oil Company. You would have to add the production of those two companies to arrive at an approximation.

President.—These are exports to the Indian ports.

Mr. Tait.—They are the imports at Indian ports.

President.—From the United States and from Burma?

Mr. Tait.—Yes, and from Borneo.

President.—The imports into the port of Cochin, are they your own figures?

Mr. Tait.—Yes.

President.—It seems that a fairly good amount is used on that side.

Mr. Tait.—Cochin comes under the Madras jurisdiction. What I mean is that the offices of the Standard Oil Company and the Pool Company at Madras control Cochin. They merely land the oil at Cochin on the west coast to save freight.

President.—I suppose it is the same whether you treat Cochin as part of Madras or Bombay.

Mr. Tait.—Cochin is not a main ocean installation. It is only a subsidiary.

President.—If you were exporting to India, would you go by Cochin to Bombay or would you go by Madras round the coast?

Mr. Tait.—We would send it direct to Cochin from here.

President.—In Statement No. Part 2-B, there is a figure of Rs. 5-1-6 in Bombay in 1924. I want to know whether that is right.

Mr. Tait.—That is right. The change took place in September 1923, the price having been reduced by 9 annas.

President.—What were they due to, those variations in 1923? There were three of them.

Mr. Tait.—We do not know. It was the pool's work. They were probably due to the lower world prices.

President.—Would it be true to say that there was a lot of discussion going on at that time about the pool prices?

Mr. Tait.—I do not know. There had been several changes in 1918.

President.—That was practically a war period.

Mr. Tait.—In 1924 there were four changes.

President.—In 1926, you have got a figure of Rs. 6-8-0 in September.

Mr. Cameron.—It must be Rs. 5-8-0.

Dr. Matthai.—Is there any other alteration to be made in that table?

Mr. Cameron.—No.

Dr. Matthai.—Are you sure that in December 1920, it was Rs. 6-1-6?

Mr. Tait.—I think so.

President.—These, I take it, are the pool prices.

Mr. Tait.—Yes. The pool has given you these two prices, I think.

President.—The pool has not given us. The farthest it goes back is 1926 and that also is not complete. From your Statement No. Part 2-C, it appears that you have got a little higher price for No. 2 Bulk Oil per unit.

The difference is not Re. 1-6-0 in all cases. If you take 1926, the rate for No. 1 is Rs. 5-8-0 and for No. 2 it is Rs. 4-7-0, and if you take 1924 the rate for No. 1 is Rs. 5-1-6 and for No. 2 it is Rs. 4-7-6. The difference in 1924 is only about 9 annas.

Mr. Tait.—The differential was in fact Re. 1-1-0 or Re. 1-2-0 as the case might be at that time.

President.—Has it got anything to do with the duty?

Mr. Tait.—The duty never varied as between one grade of oil and another grade of oil.

President.—The differential was then supposed to be Re. 1-6-0.

Mr. Tait.—Yes.

President.—It has varied a lot in that period.

Mr. Tait.—It is due to the increase or decrease in the demand for any particular grade.

Dr. Matthai.—If you took isolated months, it might vary but if you took the average it might be the same.

Mr. Tait.—Yes. In January 1926, the differential was about Re. 1-1-0 only but at the end of the year it was Re. 1-6-0. They might have been selling more inferior or superior kerosene in that period as the case might be than they wanted to sell.

President.—What is the import duty on crude?

Mr. Tait.—It is two annas and six pies. It comes under No. 40 in the Statutory Schedule.

President.—There must be some difference between the crude oil and the fuel oil.

Mr. Cameron.—The fuel oil comes under the last paragraph of No. 41 in the Statutory Schedule.

President.—What I want to know is this. Supposing you brought fuel oil which came at 7½ per cent., would it be possible for you to import a kind of fuel oil that would be very near your crude from which you could distillate other products under that definition?

Mr. Tait.—I think that the only thing we can do is to crack it.

Mr. Mathias.—Will you crack your fuel oil?

Mr. Tait.—They do so in America. They crack the fuel oil. There is no kerosene in it.

President.—Do you get petrol from it?

Mr. Tait.—You may crack it for petrol.

President.—Because the duty of 7½ per cent. on Rs. 53-5-4 is very much lower than 2½ annas per Imperial gallon.

Mr. Tait.—Yes.

President.—This 7½ per cent. on Rs. 53-5-4 is equal to how many rupees per ton?

Mr. Tait.—Rs. 3-8-0 a ton. At the rate of 2½ annas per Imperial gallon it comes to Rs. 6-4-0 per barrel of 40 Imperial gallons or, say, Rs. 5-4-0 per American barrel.

President.—Do you think that this classification is correct for your purposes?

Mr. Tait.—Yes.

President.—What is this duty of 1 anna and four pies on?

Mr. Cameron.—That is on lubricating oils.

President.—Is it per gallon?

Mr. Cameron.—Yes, per Imperial gallon.

President.—This duty of one anna and four pies per gallon seems to be a higher rate of duty than the duty on crude oil.

Mr. Cameron.—No, it is lower than the duty on crude oil.

President.—As compared with kerosene, it is about half—the duty on lubricating oils.

Mr. Cameron.—Yes.

President.—The idea of it is that you use it for machinery.

Mr. Cameron.—Previously the indigenous companies have not been able to produce lubricating oils to any extent.

Lubricating oils.

Mr. Tait.—It is obviously an item which requires reconsideration in view of the changed circumstances. Now there is a very considerable amount of lubricating oil produced by the indigenous industry which was not the case before. That was the reason I think for the difference in the tariff.

Mr. Mathias.—Do you sell lubricating oil?

Mr. Tait.—Yes.

Mr. Mathias.—But not for motor cars?

Mr. Tait.—Yes.

Mr. Mathias.—When did you start producing it?

Mr. Tait.—We started producing it in the course of last three years.

Mr. Mathias.—We have seen certain circulars issued by the Burmah Oil Company which seem to bring pressure to bear on their dealers to sell only their brands of lubricating oil and to refuse to sell other brands. Are you doing anything on the same lines?

Mr. Tait.—No.

Mr. Mathias.—You leave the choice to the consumer.

Mr. Tait.—Yes. We sell our lubricating oil and do not attack other brands or insist on our petrol being taken.

Mr. Mathias.—You are selling your lubricating oil on its merits.

Mr. Tait.—Yes.

Mr. Cameron.—The Vacuum Oil Company have distributed similar circulars all over India.

Mr. Mathias.—What is the point?

Mr. Cameron.—They are protesting against Pool methods and recommending the consumers to get into touch with the Tariff Board.

Dr. Matthai.—Under what heading does the lubricating oil come into the country?

Mr. Cameron.—Under No. 41 (2) in the Statutory Schedule.

Dr. Matthai.—All kinds of lubricating oil come under No. 41 (2).

Mr. Cameron.—Yes.

Dr. Matthai.—There has not been any change in the rate.

Mr. Cameron.—No. It has always been uniform. Previously there was no one engaged in the production of lubricating oils. We are now supplying axle oil to nearly all Indian railways. This difference of 1 anna 4 pies hits us very badly. That should be doubled. Previously there was no one in India prepared to supply railways with lubricating oil but now we are manufacturing it.

Mr. Tait.—The point is, there was no indigenous company producing lubricating oil and so there was no indigenous industry to protect, say, five years ago. Now the Attock Oil Company is producing it.

President.—How does this lubricating oil come in? The total crude has not increased, the demand for petrol has gone up, the demand for kerosene has gone up; where do you get this extra lubricating oil? Is it due to better methods?

Mr. Tait.—Better methods.

President.—You have not increased the total volume available by varying the products?

Mr. Tait.—In our case previously it went into inferior kerosene.

President.—If it went into inferior kerosene the volume would remain the same. You have not increased the total volume available by varying the products.

Mr. Tait.—We decreased the volume of inferior kerosene and we are selling part of it now as lubricating oil.

President.—That is what I wanted to understand. I do say that the figures for lubricating oil suggest that about 10 million gallons are manufactured in the country. It is a very big increase compared to 8 years ago.

Mr. Tait.—Yes. But is due to better refining methods.

President.—Your lubricating oil I think is chiefly motor oil?

Mr. Tait.—We have a range lubricating oils for different types of engines.

President.—Do you call it as I. B. P.?

Mr. Tait.—We usually sell as I. B. P. or Globe motor oil, A, B and C.

President.—Look at your statement Part 4-A again. In seven months your losses amounted to Rs. 3,00,174-1-8?

Mr. Tait.—Yes.

President.—If the world parity was taken at Rs. 4-9-9?

Mr. Tait.—Yes.

President.—And your production was taken at the figures that you have given in this statement?

Mr. Tait.—Yes.

President.—They may be taken more or less as your normal sales having regard to this year's production?

Mr. Tait.—Yes.

President.—The loss comes to about Rs. 42,000 per month for both superior and inferior.

Mr. Tait.—Yes.

President.—I have worked it out at Rs. 42,882 or Rs. 5,14,584 in a year.

Mr. Tait.—Yes.

President.—Might we apply the same units more or less to the different prices and estimate your losses?

Mr. Tait.—I think so.

President.—I think that would be right approximately. First of all there is this new level of prices, Rs. 4-4-0 and Rs. 3-6-0, that the pool is going to fix, and the same figures might be applied?

Mr. Tait.—I suppose so. Of course, I don't know how these prices of Rs. 4-4-0 and Rs. 3-6-0 are operating just now; there is no uniformity anywhere yet.

President.—Your production is roughly in the proportion of 33 to 25 units per month.

Mr. Tait.—Yes.

Variation of the proportions of products.

President.—You can vary your production. Supposing prices were fixed Rs. 4-4-0 and Rs. 3-6-0, is it necessary for you to sell so much inferior oil for your purpose, considering the times? The proportion is 33 to 25; you suggest 45 to 15, just to keep your brands going. Would there be any difficulty in doing so? A lot of both kinds of oil is being imported; yours is a small production, so that it can be absorbed into the market in any varied proportion.

Mr. Tait.—Quite easily. We have so little to sell just now that we have got to maintain a certain percentage of inferior.

President.—That is right; where you have been selling 3 of inferior to 2 of superior you can vary the proportion.

Mr. Tait.—Under the new alterations we are going to get a better price for the inferior.

President.—Relatively; you get Rs. 4-4-0 per gallon for the superior and Rs. 3-6-0 for the inferior oil. Then you say you may not like to stop your inferior entirely but you say “we will produce 10 per cent. inferior for our dealers and the rest superior to fetch a higher price.” You can do that, can you not?

Mr. Tait.—We take every gallon of superior out of the oil that we can get.

President.—But you could convert most of this into superior.

Mr. Tait.—I don't think so. What we think the Burmah Oil Company said is that the excess inferior over this 1,95,000 could be treated for superior.

President.—I may be wrong, but I don't think that is correct.

Mr. Tait.—By ordinary distillation methods there is a limit.

Mr. Mathias.—The limit is about 10 per cent. by ordinary refining methods, is it not?

Mr. Tait.—We can squeeze out something more out of it, but it would mean an expensive process.

Mr. Mathias.—But it can be done. I thought up to a limit of 10 per cent. it could be done.

Mr. Tait.—It might.

Dr. Matthai.—Last year you sold an equal quantity of superior and inferior roughly. Can you increase your quantity of superior and reduce the proportion of inferior, say, make it 60 and 40 per cent.?

Mr. Tait.—We take now about 55 per cent. of white products out of the oil. That includes petrol and superior kerosene.

Dr. Matthai.—To what extent could you raise the proportion of your superior in comparison with the inferior of last year?

Mr. Tait.—I don't know.

President.—I took the proportion of 25 and 33. Could you reverse that without difficulty?

Mr. Tait.—On our present production what we did to reduce inferior was, having taken out all the white out of the oil we started at the other end and took out the lubricating oil, so that there would be very little inferior kerosene.

President.—You mean to say that this proportion cannot be altered at all?

Mr. Tait.—We are doing our utmost. We don't think we can alter it at the moment.

Mr. Mathias.—The Burmah Oil Company agreed that they could alter all their products within a margin of 10 per cent.

Mr. Tait.—I do think it is quite possible that they could convert all the inferior in excess of 195,000 tons to superior. 195,000 tons come to something like 25 per cent.; anything over that I am quite sure they can make into superior. To make any of the 25 per cent. into superior would entail a costly process.

Mr. Mathias.—You could vary your lubricating oil, I mean you could increase your lubricating oil to some extent, could you not?

Mr. Tait.—We are hoping to get more.

Mr. Mathias.—You could increase that?

Mr. Tait.—Yes.

President.—By reducing the second quality kerosene?

Mr. Tait.—Yes.

President.—How much could you cut off? There is 25 and 33; how much could you add from 33 to 25?

Mr. Tait.—We have not given any percentage. In statement Part 5-k we have given the various makes.

President.—What I want to know is how much can you cut out from 33 and transfer it to 25 and make more money?

Mr. Tait.—We are now taking about 25 to 27 per cent. of the inferior and are reducing that to the utmost limit.

President.—By how much could you cut down inferior and convert it to something else?

Mr. Tait.—On our present production we cannot cut down anything.

President.—If we were to take this world parity your losses in a year would boil down to Rs. 5.14 lakhs.

Mr. Tait.—Yes.

Mr. Mathias.—If you cannot sell your inferior you will have to sell it as fuel oil, is that your position?

Mr. Tait.—Yes. We will have to do that unless we crack it.

Dr. Matthai.—From the marketing point of view have you got to sell a minimum amount of kerosene?

Mr. Tait.—We have got to keep our organization intact now. Certain districts want this kind of kerosene oil.

Dr. Matthai.—The price war will be over in two years and you want to get back to normal market conditions?

Mr. Tait.—Yes.

Dr. Matthai.—If you were to take into account the requirements of those districts where people want this inferior oil, could you reduce the quota of inferior oil, simply from the marketing point of view?

Mr. Tait.—If we had ample supplies we could. At the moment we have no option.

Dr. Matthai.—At present monthly you are selling a certain amount of inferior oil which I find is lower in quantity than you sold last year. Supposing it was possible for you by any improved methods and so on to reduce your amount of inferior and increase your other products, would it affect your markets so far as your inferior oil is concerned?

Mr. Tait.—It might.

Dr. Matthai.—You might find it difficult after normal conditions were restored to go back to the districts to which you sold this inferior?

Mr. Tait.—Yes.

President.—Supposing the war does not extend to petrol, this sum of Rs. 5 lakhs is not a thing which is going to make any great difference to you, is it?

Mr. Tait.—You can see the position from the balance sheet.

President.—Speaking generally it would not affect you very much?

Mr. Tait.—Obviously it must.

President.—Having regard to the position of the Indo-Burmah Oil Company in the world a loss of Rs. 5 lakhs is not a thing that can stop your night's rest!

Mr. Tait.—We don't know. We have lost many times that much before. The point is we are now operating at a loss.

President.—I am talking of this reduction of your income. Is it going to make any very great difference to you?

Mr. Tait.—It is not going to break Steel Brothers but it is going to affect the Indo-Burmah Petroleum Company. As I said we are going to close down all new work.

Mr. Mathias.—Surely it is for the company to consider to what extent the future of the company is worth sacrificing in the interest of the shareholders. Your restriction of expenditure so far is in the interest of the shareholders.

Dr. Matthai.—Have you closed down part of your development works?

Mr. Tait.—Yes. Unremunerative works have been closed down.

President.—It is wise to close down unremunerative works, Mr. Tait!

Mr. Tait.—I mean immediately unremunerative works.

Company's balance sheets.

President.—Now let us turn to your balance sheets. Last year's balance sheet shows a profit of Rs. 8,02,103-8-6. That is profit for the year, is it not?

Mr. Tait.—Yes.

President.—That I think in the ordinary way might have been distributed along with the amount carried forward from the previous year that was available for distribution the total being Rs. 9,87,132-1-7.

Mr. Tait.—Yes.

President.—In this year you issued a fresh capital of Rs. 30 lakhs of preference shares.

Mr. Tait.—Yes.

President.—I find by comparing the balance sheet as at 31st December, 1927, with the previous year, that the property and assets have increased by about 36 lakhs in round figures. The value of property is given here. It is the difference between the value of the properties in 1926 and 1927.

Mr. Tait.—Yes.

President.—Out of that Rs. 36 lakhs, I take it Rs. 30 lakhs may have come from the fresh capital.

Mr. Tait.—That is the final issue.

President.—But there would be an addition of Rs. 6 lakhs and odd out of the profits in that year. Would that be right?

Mr. Tait.—Partly.

President.—Rs. 36 lakhs is the amount by which your total assets have increased compared with 1926. Of that Rs. 30 lakhs has been got by the issue of fresh capital. This Rs. 36 lakhs includes the purchase of the Hessford shares, is that right?

Mr. Mathias.—And the remaining Rs. 6 lakhs would be shown on the debit side.

Mr. Tait.—Yes.

President.—It is the same thing with depreciation. This Rs. 6 lakhs, if you had not spent on capital, might be available for dividend along with Rs. 9,87,132-1-7. You have increased the value of your property by Rs. 36 lakhs. When you raised Rs. 30 lakhs, you might have raised Rs. 36 lakhs. The difference of Rs. 6 lakhs has gone out of revenue in that year for the purchase of stores, products and everything else.

Mr. Tait.—They will go out.

President.—I have taken the difference between the two and I find the difference in round figures is Rs. 36 lakhs compared to 1926. But on the capital liability side you have borrowed Rs. 30 lakhs. I take it that that would be more or less appropriated towards increasing the capital value in the ordinary course.

Mr. Tait.—Yes.

President.—Therefore in that year Rs. 6 lakhs went out of revenue to capital expenditure roughly. It might have increased your stocks or something in that way.

Mr. Tait.—Yes.

President.—Your working capital might have increased. That was an addition to your property out of revenue.

Mr. Tait.—Stocks are Rs. 4 lakhs higher.

President.—What I want to suggest is that there is an increase in your property to the extent of Rs. 6 lakhs out of revenue. I am not disputing the way you appropriated it. But supposing I was a shareholder in your concern, I might say “very well,” Rs. 6 lakhs you have got from the revenues pay me a dividend and raise a capital of Rs. 6 lakhs if you want. I am speaking to you as a shareholder. Would that be unreasonable?

Mr. Tait.—It would be unreasonable.

President.—When you borrowed Rs. 30 lakhs, you could have borrowed Rs. 36 lakhs. A shareholder may say you have spent Rs. 6 lakhs which you have earned in the ordinary way in increasing the value of your properties. As regards properties, oil wells, etc., you find an addition of Rs. 16 lakhs. In the year 1927 you show the amount expended on properties, plant, etc., as Rs. 1,89,30,117 and in the year 1926 as Rs. 1,72,44,194.

Mr. Tait.—We have added on depreciation.

President.—Depreciation, I calculate separately.





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